## IMPORTANT NOTICE

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

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

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

Confirmation of your Representation: In order to be eligible to view this Prospectus or make an investment decision with respect to the securities, investors must be either (1) "qualified institutional buyers" (**QIBs**) within the meaning of Rule 144A (**Rule 144A**) under the U.S. Securities Act of 1933, as amended (the **Securities Act**), (2) institutional "accredited investors" (**IAIs**) as defined in Rule 501(a)(1), (2), (3) or (7) of Regulation D under the Securities Act or (3) non-U.S. persons (within the meaning of Regulation S under the Securities Act) outside the U.S.; provided that investors resident in a Member State of the European Economic Area must be a qualified investor (within the meaning of Article 2(1)(e) of Directive 2003/71/EC and any relevant implementing measure in each Member State of the European Economic Area). This Prospectus is being sent at your request and by accepting the e-mail and accessing this Prospectus, you shall be deemed to have represented to us that (1) you and any customers you represent are either (a) a QIB, (b) an IAI or (c) not a U.S. person and that the electronic mail address that you gave us and to which this Prospectus has been delivered is not located in the U.S. (and if you are resident in a Member State of the European Economic Area, you are a qualified investor) and (2) that you consent to the delivery of such Prospectus by electronic transmission.

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

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

be made by the Dealer or such affiliate on behalf of the Issuer (as defined in the Prospectus) in such jurisdiction.

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

**NATIONWIDE BUILDING SOCIETY**

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

# €45 billion
# Global Covered Bond Programme
# unconditionally and irrevocably guaranteed as to payments by
# Nationwide Covered Bonds LLP

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

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

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

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

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

See "*Risk Factors*" on page 27 for a discussion of certain factors to be considered in connection with an investment in the Covered Bonds.

This Base Prospectus (the **Base Prospectus**) constitutes a 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 (the **Prospectus Directive**). Application has been made to the Financial Conduct Authority (the **FCA**) under Part VI of the Financial Services and Markets Act 2000 (the **FSMA 2000**) for the purposes of the Prospectus Directive and relevant implementing measures in the United Kingdom (the **UK Listing Authority**), for approval of this Base Prospectus 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 Covered Bonds issued under the Programme during the period of 12 months from the date of this Base Prospectus to be admitted to the official list of the UK Listing Authority (the **Official List**) and to the London Stock Exchange plc (the **London Stock Exchange**) for such Covered Bonds to be admitted to trading on the regulated market of the London Stock Exchange which is a **regulated market** for the purposes of Directive 2004/39/EC (the **Markets in Financial Instruments Directive**) (the **regulated market of the London Stock Exchange**). References in this Base Prospectus to Covered Bonds being **listed** (and all related references) shall mean that such Covered Bonds have been admitted to trading on the regulated market of the London Stock Exchange and have been admitted to the Official List. Notice of the aggregate nominal amount of Covered Bonds, interest (if any) payable in respect of Covered Bonds, the issue price of Covered Bonds and certain other terms are applicable to each Tranche (as defined under "*Terms and Conditions of the Covered Bonds*") of Covered Bonds will be set out in a separate document containing the final terms for that Tranche (**Final Terms**) which, with respect to Covered Bonds to be admitted to the Official List and admitted to trading on the regulated market of the London Stock Exchange, will be delivered to the UK Listing Authority and the regulated market of the London Stock Exchange on or before the date of issue of such Tranche of Covered Bonds. This Base Prospectus is not a prospectus for the purposes of Section 12(a) (2) or any other provision or order under the US Securities Act of 1933, as amended (the **Securities Act**).

As at the date of this Prospectus: (i) long-term senior obligations of the Issuer are rated "A" by Standard & Poor's Credit Market Services Europe Limited (**S&P**), "Aa3" by Moody's Investors Service Ltd. (**Moody's**) and "A" by Fitch Ratings Limited (**Fitch**); and (ii) short-term obligations of the Issuer are rated "A-1" by S&P, "P-1" by Moody's and "F1" by Fitch. Each of Fitch, Moody's and S&P is established in the European Union and is registered under Regulation (EC) No. 1060/2009 of the European Parliament and of the Council of 16 September 2009 on credit rating agencies.

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

The Issuer may issue unlisted Covered Bonds or N Covered Bonds from time to time, for which no prospectus is required to be published under the Prospectus Directive and which will not be issued pursuant to (and do not form part of) this Prospectus, and will not be issued pursuant to any Final Terms Document under this Prospectus. The U.K. Listing Authority has neither approved nor reviewed information contained in this Prospectus in connection with any unlisted Covered Bonds or N Covered Bonds.

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

The Covered Bonds and the Covered Bond Guarantee (as defined below) have not been and will not be registered under the Securities Act or under the applicable securities laws or the regulations of any state of the United States, and may not be offered, sold or delivered in the United States or to, or for the benefit of, US persons (as defined in Regulation S (**Regulation S**) of the Securities Act) unless such securities are registered under the Securities Act or pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. The Covered

Bonds are being offered (a) outside the United States to non-US persons in reliance on Regulation S and (b) within the United States only to "qualified institutional buyers" (**QIBs**) (as defined in Rule 144A (**Rule 144A**) under the Securities Act) in compliance with Rule 144A or in other transactions exempt from registration under the Securities Act. See "*Form of the Covered Bonds*" for a description of the manner in which Covered Bonds will be issued. Registered Covered Bonds are subject to certain restrictions on transfer, see "*Subscription and Sale and Transfer and Selling Restrictions*".

The Covered Bonds issued under the Programme are expected on issue to be assigned an "AAA" rating by **S&P**, an "AAA" rating by Fitch and an "Aaa" rating by Moody's, each of which is established in the European Union and is registered under Regulation (EU) No 1060/2009 (as amended) (the **CRA Regulation**) of the European Parliament and of the Council of 16 September 2009 on credit rating agencies. A credit rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation. The rating of certain Series of Covered Bonds to be issued under the Programme may be specified in the applicable Final Terms. In general, European regulated investors are restricted under the CRA Regulation from using a rating for regulatory purposes, unless such ratings are issued by a credit rating agency established in the European Union and registered under the CRA Regulation (and such registration has not been withdrawn or suspended). Such general restriction will also apply in the case of credit ratings issued by non-EU credit rating agencies, unless the relevant credit ratings are endorsed by an EU-registered credit rating agency or the relevant non-EU rating agency is certified in accordance with the CRA Regulation (and such endorsement action or certification, as the case may be, has not been withdrawn or suspended).

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

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

Arranger for the Programme

**Barclays**

The date of this Base Prospectus is 29 July 2016.

The Issuer and the LLP each accept responsibility for the information contained in this Base Prospectus including the Final Terms relating to each Tranche of Covered Bonds issued under the Programme. To the best of the knowledge and belief of each of the Issuer and the LLP (each having 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. Any information sourced from third parties contained in this Base Prospectus has been accurately reproduced (and is clearly sourced where it appears in the document) and, as far as each of the Issuer and the LLP 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 Issuer has been admitted to the FCA's register of issuers and the Programme and all Covered Bonds previously issued under the Programme have been admitted to the register of Regulated Covered Bonds under the RCB Regulations.

Copies of each set of Final Terms (in the case of Covered Bonds to be admitted to the Official List) will be available from FT Business Research Centre, operated by FT Interactive Data at Fitzroy House, 13-17 Epworth Street, London EC2A 4DL and (in the case of Covered Bonds to be admitted to the Official List and also all unlisted Covered Bonds) from the specified office set out below of each of the Paying Agents (as defined below).

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

The information contained in this Base Prospectus was obtained from the Issuer. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by the Dealers, the Bond Trustee or the Security Trustee as to the information contained or incorporated by reference in this Base Prospectus or any other information provided by the Issuer and the LLP in connection with the Programme. Neither the Dealers nor the Bond Trustee nor the Security Trustee accepts any liability in relation to the information contained or incorporated by reference in this Base Prospectus or any other information provided by the Issuer and the LLP in connection with the Programme.

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

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

Neither the delivery of this Base Prospectus nor the offering, sale or delivery of any Covered Bonds shall in any circumstances imply that the information contained herein concerning the Issuer and/or the LLP and/or

the Seller is correct at any time subsequent to the date hereof or that any other information supplied in connection with the Programme is correct as of any time subsequent to the date indicated in the document containing the same. The Dealers, the Bond Trustee and the Security Trustee expressly do not undertake to review the financial condition or affairs of the Issuer, the LLP or the Seller during the life of the Programme or to advise any investor in the Covered Bonds of any information coming to their attention. Investors should review, *inter alia*, the most recently published documents incorporated by reference into this Base Prospectus when deciding whether or not to purchase any Covered Bonds.

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

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

In connection with the issue of any Tranche of Covered Bonds, one or more relevant Dealers acting as stabilising manager (each a **Stabilising Manager**) may over-allot Covered Bonds (provided that, in the case of any Tranche of Covered Bonds to be admitted to trading on the London Stock Exchange or any other regulated market (within the meaning of the Markets in Financial Instruments Directive (Directive 2004/39/EC)) in the European Economic Area, the aggregate principal amount of Covered Bonds allotted does not exceed 105% of the aggregate principal amount of the relevant Tranche) or effect transactions with a view to supporting the market price of the Covered Bonds at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilising Manager(s) (or persons acting on behalf of a Stabilising Manager) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the final terms of the offer of the relevant Tranche of Covered Bonds is made and, if begun, may 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 Covered Bonds and 60 days after the date of the allotment of the relevant Tranche of Covered Bonds. Any stabilisation action or over-allotment must be conducted by the relevant Stabilising Manager (or persons acting on behalf of any Stabilising Manager(s)) in accordance with all applicable laws and rules.

The Covered Bonds may not be a suitable investment for all investors and in making an investment decision, investors must rely on their own examination of the Issuer and the LLP and the terms of the Covered Bonds being offered, including the merits and risks involved. The Covered Bonds have not been approved or disapproved by the United States Securities and Exchange Commission or any other securities commission or other regulatory authority in the United States, nor have the foregoing authorities approved this Base

Prospectus or confirmed the accuracy or determined the adequacy of the information contained in this Base Prospectus. Any representation to the contrary is unlawful.

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

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

**Legal investment considerations may restrict certain investments**

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

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

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

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

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

## US INFORMATION

**Registered Covered Bonds may be offered, sold or delivered within the United States only to QIBs or IAIs in transactions exempt from registration under the Securities Act. Each US purchaser of Registered Covered Bonds is hereby notified that the offer and sale of any Registered Covered Bonds to it may be being made in reliance upon the exemption from the registration requirements of the Securities Act provided by Rule 144A.**

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

**Purchasers of Definitive IAI Registered Covered Bonds (as defined under "*Form of the Covered Bonds*") will be required to execute and deliver an IAI Investment Letter (as defined under "*Terms and Conditions of the Covered Bonds*"). Each purchaser or holder of Covered Bonds represented by a Definitive IAI Registered Covered Bond (as defined under "*Form of the Covered Bonds*"), a Definitive Rule 144A Covered Bond, a Rule 144A Global Covered Bond (as defined under "*Form of the Covered Bonds*") or any Covered Bonds issued in registered form in exchange or substitution therefor (together "Legended Covered Bonds") will be deemed, by its acceptance or purchase of any such Legended Covered Bonds, to have made certain representations and agreements intended to restrict the resale or other transfer of such Covered Bonds as set out in "*Subscription and Sale and Transfer and Selling Restrictions*". Unless otherwise stated, terms used in this paragraph have the meanings given to them in "*Form of the Covered Bonds*".**

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

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

## FORWARD-LOOKING STATEMENTS

This Base Prospectus contains various forward-looking statements regarding events and trends that are subject to risks and uncertainties that could cause the actual results and financial position of the Issuer or the Issuer and its consolidated subsidiaries and subsidiary undertakings (collectively, the **Nationwide Group**) to differ materially from the information presented herein. When used in this Base Prospectus, the words "estimate", "project", "intend", "anticipate", "believe", "expect", "should" and similar expressions, as they relate to the Nationwide Group and its management, are intended to identify such forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof.

## PRESENTATION OF FINANCIAL INFORMATION

The financial information incorporated by reference in this Base Prospectus as of and for the years ended 4 April 2014, 2015 and 2016, in respect of the Issuer, and for the years ended 4 April 2014, 2015 and 2016,

in respect of the LLP, 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 (**IASB**), as adopted by the European Commission for use in the European Union (collectively, the **IFRS Financial Statements**).

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

The IFRS Financial Statements have been audited by PricewaterhouseCoopers LLP, independent auditors, as stated in their report appearing herein.

## SERVICE OF PROCESS AND ENFORCEMENT OF CIVIL LIABILITIES

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

## WHERE YOU CAN FIND MORE INFORMATION

The IFRS Financial Statements are incorporated by reference in this Base Prospectus. We will not distribute these financial statements to holders of the Covered Bonds, 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, 1 Threadneedle Street, London EC2R 8AW, England.

As of the date of this Base Prospectus, we do not file reports or other information with the US 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 Covered Bonds or any beneficial interest therein, or a prospective purchaser specified by a holder of Covered Bonds or beneficial owner, 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 US Securities Exchange Act of 1934, as amended (the **Exchange Act**) nor exempt from such reporting requirements pursuant to Rule 12g3-2(b) of the Exchange Act.

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## PRINCIPAL CHARACTERISTICS OF THE PROGRAMME

| | |
|---|---|
| **Issuer:** | Nationwide Building Society |
| **Guarantor:** | Nationwide Covered Bonds LLP |
| **Regulated Covered Bonds:** | The Issuer and the Programme and all Covered Bonds previously issued under the Programme have been registered under the RCB Regulations |
| **Nature of eligible property:** | Residential mortgage loans, Substitution Assets up to the prescribed limit and Authorised Investments |
| **Compliant with the Banking Consolidation Directive (Directive 2006/48/EC):** | Yes |
| **Location of eligible residential property underlying Loans:** | England, Wales, Scotland or Northern Ireland |
| **Maximum True Balance to Indexed Valuation ratio given credit under the Asset Coverage Test:** | 75% |
| **Maximum Asset Percentage:** | 93% |
| **Asset Coverage Test:** | As set out on page 221 |
| **Statutory minimum overcollateralisation** | The eligible property in the asset pool must be more than 108% of the Principal Amount Outstanding of the Covered Bonds |
| **Amortisation Test:** | As set out on page 225 |
| **Extended Maturities:** | Available |
| **Hard Bullet Maturities:** | Available |
| **Asset Monitor:** | PricewaterhouseCoopers LLP |
| **Asset Pool Monitor:** | PricewaterhouseCoopers LLP |
| **Asset Segregation from Issuer:** | Yes |
| **Namensschuldverschreibungen option:** | Yes |
| **Single / Multi Asset Pool designation:** | Single Asset Pool, consisting of residential mortgage loans and liquid assets |
| **Substitution Assets:** | Asset backed securities are not eligible property and cannot form part of the Asset Pool |

## DOCUMENTS INCORPORATED BY REFERENCE

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

(a) the auditors' report and audited consolidated financial statements of the Issuer for the financial years ended 4 April 2016, 4 April 2015 and 4 April 2014;

(b) the auditors' report and audited financial statements of the LLP for the financial years ended 4 April 2016, 4 April 2015 and 4 April 2014; and

(c) the terms and conditions of the Covered Bonds contained in the previous base prospectuses relating to the Programme dated 30 November 2005, 25 June 2007, 2 June 2008, 19 June 2008, 3 July 2009, 1 July 2010, 15 July 2011, 28 June 2012, 26 July 2013, 31 July 2014 and 31 July 2015,

save that any statement contained herein or in a document which is incorporated by reference herein shall be deemed to be modified or superseded for the purpose of this Base Prospectus to the extent that a statement contained in any document which is subsequently incorporated by reference herein by way of a supplement prepared in accordance with Article 16 of the Prospectus Directive modifies or supersedes such earlier statement (whether expressly, by implication or otherwise). Any such statement so modified or superseded shall not, except as so modified or superseded, constitute a part of this Base Prospectus. Documents which are referred to or incorporated by reference into the documents listed above do not form part of this Base Prospectus. Where only certain parts of documents are being incorporated by reference, any non-incorporated parts of documents referred to herein are either not relevant for an investor or are otherwise covered elsewhere in this Base Prospectus.

The Issuer and the LLP will provide, without charge, to each person to whom a copy of this Base Prospectus has been delivered, upon the request of such person, a copy of any or all of the documents deemed to be incorporated herein by reference unless such documents have been modified or superseded as specified above. Written requests for such documents should be directed either to the Issuer, 1 Threadneedle Street, London EC2R 8AW, England and marked for the attention of Treasury or (as applicable) the LLP, at its office set out at the end of this Base Prospectus.

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

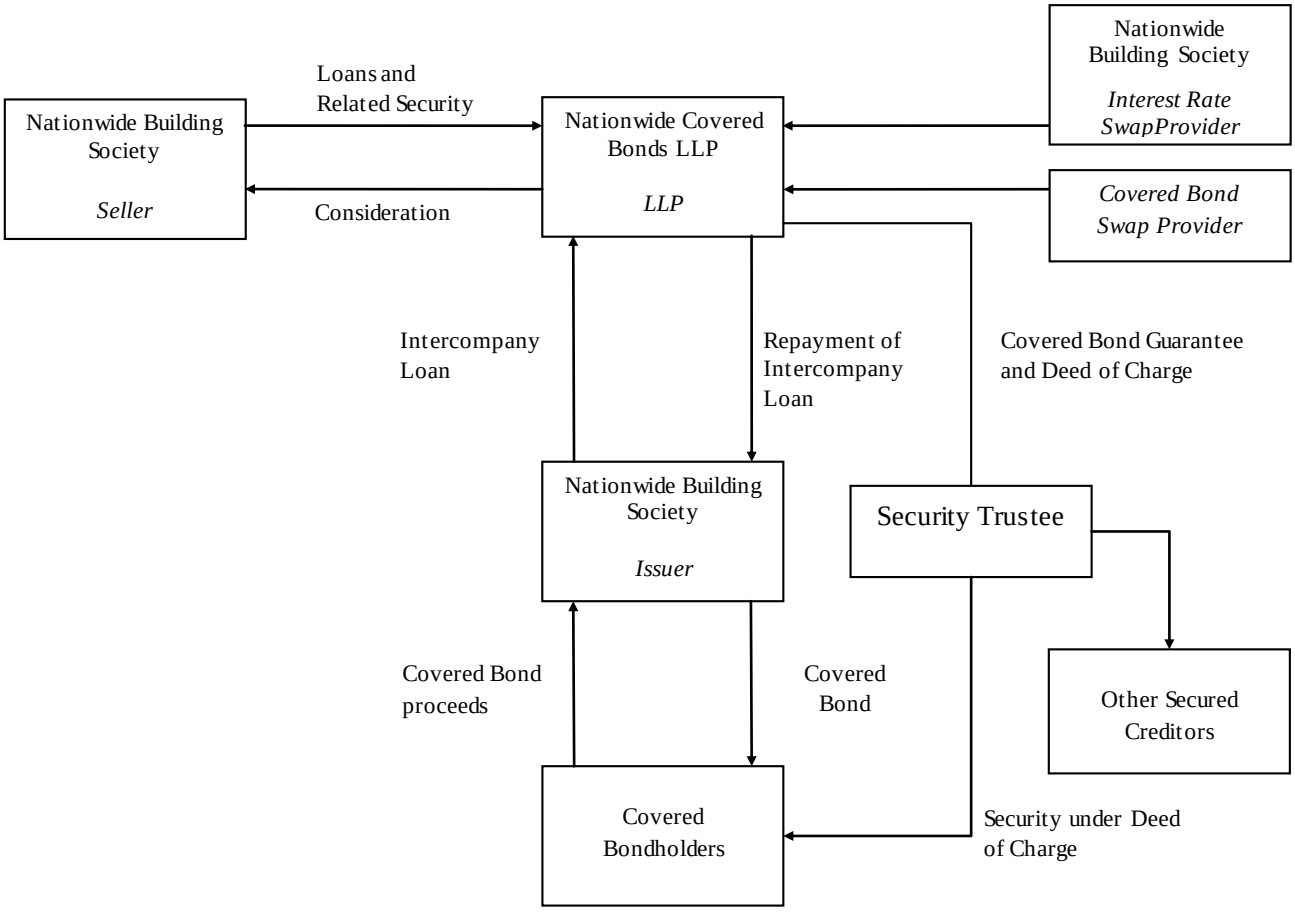
Copies of the documents incorporated by reference in this Base Prospectus will be available for viewing without charge (i) at the offices of the Issuer at 1 Threadneedle Street, London EC2R 8AW, England and (ii) on the Regulatory News Service operated by the London Stock Exchange at www.londonstockexchange.com/exchange/prices-and-news/news/market-news/market-news-home.html. Please note that websites and urls referred to herein do not form part of this Base Prospectus. To the extent that any document incorporated by reference in this Base Prospectus incorporates further information by reference, such further information does not form part of this Base Prospectus.

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

## STRUCTURE OVERVIEW

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

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



**Structure Overview**

- *Programme*: Under the terms of the Programme, the Issuer will issue Covered Bonds to holders of the Covered Bonds on each Issue Date. The Covered Bonds will be direct, unsecured and unconditional obligations of the Issuer.

- *Intercompany Loan Agreement*: Under the terms of the Intercompany Loan Agreement, the Issuer will make Term Advances to the LLP in an amount equal to the Principal Amount Outstanding on the Issue Date of each Series or, as applicable, Tranche of Covered Bonds. Payments by the Issuer of amounts due under the Covered Bonds are not conditional upon receipt by the Issuer of payments from the LLP pursuant to the Intercompany Loan Agreement. Amounts owed by the LLP under the Intercompany Loan Agreement will be subordinated to amounts owed by the LLP under the Covered Bond Guarantee.

- *Covered Bond Guarantee*: Under the terms of the Trust Deed, the LLP has provided a guarantee as to payments of interest and principal under the Covered Bonds. The LLP has agreed to pay an amount equal to the Guaranteed Amounts when the same shall become Due for Payment but which would otherwise be unpaid by the Issuer. The obligations of the LLP under the Covered Bond Guarantee constitute direct and (following the service of a Notice to Pay on the LLP or, if earlier, the service on the Issuer and the LLP of an LLP Acceleration Notice) unconditional obligations of the LLP, secured as provided in the Deed of Charge. The Bond Trustee will be required to serve a Notice to Pay on the LLP following the occurrence of an Issuer Event of Default and service of an Issuer Acceleration Notice. An LLP Acceleration Notice may be served by the Bond Trustee on the Issuer and the LLP following the occurrence of an LLP Event of Default.

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

- *The proceeds of Term Advances*: The LLP will use the proceeds of the Term Advances received under the Intercompany Loan Agreement from time to time (if not denominated in Sterling, after swapping the same into Sterling under the relevant Covered Bond Swap Agreement):

  (i) to purchase Loans and their Related Security, from the Seller in accordance with the terms of the Mortgage Sale Agreement; and/or

  (ii) to invest in Substitution Assets in an amount not exceeding the prescribed limit,

  to the extent required to meet the requirements of Regulations 23 and 24(1)(a) of the RCB Regulations and the Asset Coverage Test and thereafter such proceeds may be applied by the LLP:

  (a) to purchase Loans and their Related Security, from the Seller in accordance with the terms of the Mortgage Sale Agreement; and/or

  (b) to invest in Substitution Assets in an amount not exceeding the prescribed limit; and/or

  (c) (subject to complying with the Asset Coverage Test (as described below)) to make a Capital Distribution to a Member; and/or

(d) if an existing Series or Tranche, or part of an existing Series or Tranche, of Covered Bonds is being refinanced (by the issue of a further Series or Tranche of Covered Bonds), to repay the Term Advance(s) corresponding to the Covered Bonds being so refinanced; and/or

(e) to make a deposit of all or part of the proceeds in any GIC Account (including, without limitation, to fund the Reserve Fund to an amount not exceeding the prescribed limit) or, if applicable the Collateralised GIC Account. To protect the value of the Portfolio under the terms of the LLP Deed, the LLP and the Members (other than the Liquidation Member) will be obliged to ensure that the Asset Coverage Test (as described below) will be satisfied on each Calculation Date.

- *Consideration*: Under the terms of the Mortgage Sale Agreement, the consideration payable to the Seller for the sale of Loans and their Related Security to the LLP on any Transfer Date will be a combination of (a) a cash payment paid by the LLP to the Seller and/or (b) the Seller being treated as having made a Capital Contribution to the LLP (in an amount up to the difference between the True Balance of the Loans sold by the Seller as at the relevant Transfer Date and the cash payment (if any) paid by the LLP) and (c) Deferred Consideration.

- *Security*: To secure its obligations under the Covered Bond Guarantee and the Transaction Documents to which it is a party, the LLP has granted security over the Charged Property (which consists principally of the LLP's interest in the Portfolio, the Substitution Assets, the Transaction Documents to which it is a party, the LLP Accounts and the Authorised Investments) in favour of the Security Trustee (for itself and on behalf of the other Secured Creditors) pursuant to the Deed of Charge.

- *Cashflows*: Prior to service of an Asset Coverage Test Breach Notice (which has not been revoked) a Notice to Pay or an LLP Acceleration Notice on the LLP and/or the realisation of the Security and/or the commencement of winding-up proceedings against the LLP, the LLP will:

  - apply Available Revenue Receipts to pay interest due on the Term Advances (the proceeds of which the Issuer may apply to pay interest due on the Covered Bonds) and to pay Deferred Consideration to the Seller in respect of the Loans sold by the Seller to the LLP. However, these payments will only be made after payment of certain items ranking higher in the Pre-Acceleration Revenue Priority of Payments (including, but not limited to, certain expenses and amounts due to the Interest Rate Swap Provider and the Covered Bond Swap Providers and required to be credited to any GIC Account or, if applicable the Collateralised GIC Account with a corresponding credit to the Pre-Maturity Liquidity Ledger). For further details of the Pre-Acceleration Revenue Priority of Payments, see "*Cashflows*" below; and

  - apply Available Principal Receipts towards making Capital Distributions to the Members but only after payment of or provision for certain items ranking higher in the Pre-Acceleration Principal Priority of Payments (including, but not limited to, funding any liquidity that may be required in respect of Hard Bullet Covered Bonds following any breach of the Pre-Maturity Test and acquiring New Loans and their Related Security offered by the Seller to the LLP). For further details of the Pre-Acceleration Principal Priority of Payments, see "*Cashflows*" below.

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

- in respect of Available Revenue Receipts, no further amounts will be paid to the Issuer under the Intercompany Loan Agreement, into the Reserve Fund, towards any indemnity amount due to the Members pursuant to the LLP Deed or any indemnity amount due to the Asset Monitor pursuant to the Asset Monitor Agreement, towards any Deferred Consideration or towards any profit for the Members' respective interests in the LLP (but payments will, for the avoidance of doubt, continue to be made under the relevant Swap Agreements); and

- in respect of Available Principal Receipts, no payments will be made other than into the GIC Accounts after exchange (if required) in accordance with the relevant Covered Bond Swap (see "*Cashflows*" below).

Following service on the LLP of a Notice to Pay (but prior to an LLP Event of Default and service of an LLP Acceleration Notice on the LLP and/or the realisation of the Security and/or the commencement of winding-up proceedings against the LLP) the LLP will use all moneys (other than Third Party Amounts and Swap Collateral) to pay Guaranteed Amounts in respect of the Covered Bonds when the same shall become Due for Payment subject to paying certain higher ranking obligations of the LLP in the Guarantee Priority of Payments. In such circumstances, the Members of the LLP, including the Seller, will only be entitled to receive any remaining income of the LLP after all amounts due under the Covered Bond Guarantee in respect of the Covered Bonds have been paid in full or have otherwise been provided for.

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

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

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

(a) the application of Available Revenue Receipts and Available Principal Receipts will be restricted;

(b) the LLP will be required to sell Selected Loans; and

(c) the Issuer will not be permitted to make to the LLP and the LLP will not be permitted to borrow from the Issuer any new Term Advances under the Intercompany Loan Agreement.

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

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

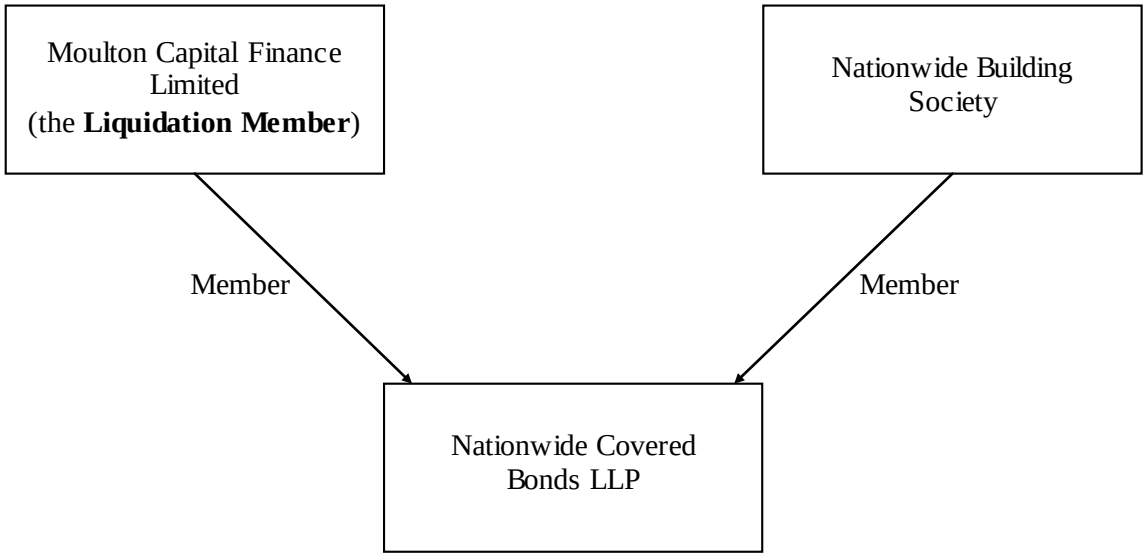
- *Extendable obligations under the Covered Bond Guarantee*: An Extended Due for Payment Date may be specified as applying in relation to a Series of Covered Bonds in the applicable Final Terms (each such Series being Soft Bullet Covered Bonds). This means that if the Issuer fails to pay the Final Redemption Amount of the relevant Series of Covered Bonds on the Final Maturity Date (subject to applicable grace periods) and if the Guaranteed Amounts equal to the Final Redemption Amount of the relevant Series of Covered Bonds are not paid in full by the Extension Determination Date (for example because, following the service of a Notice to Pay on the LLP, the LLP has insufficient moneys available in accordance with the Guarantee Priority of Payments to pay in full the Guaranteed Amounts corresponding to the Final Redemption Amount of the relevant Series of Covered Bonds) then payment of the unpaid amount pursuant to the Covered Bond Guarantee shall be automatically deferred (without an LLP Event of Default occurring as a result of such non-payment) and shall be due and payable one year later on the Extended Due for Payment Date (subject to any applicable grace period). However, any amount representing the Final Redemption Amount due and remaining unpaid on the Extension Determination Date may be paid by the LLP on any Interest Payment Date thereafter, up to (and including) the relevant Extended Due for Payment Date. Interest will continue to accrue on any unpaid amount during such extended period and be payable on the Original Due for Payment Date and on the Extended Due for Payment Date in accordance with Condition 4 (Interest).

- *Servicing*: In its capacity as Servicer, Nationwide Building Society has entered into the Servicing Agreement with the LLP and the Security Trustee, pursuant to which the Servicer has agreed to provide certain services in respect of the Loans and their Related Security sold by Nationwide Building Society (in its capacity as Seller) to the LLP.

- *Further Information*: For a more detailed description of the transactions summarised above relating to the Covered Bonds see, amongst other relevant sections of this Base Prospectus, "*Overview of the Programme*", "*Terms and Conditions of the Covered Bonds*", "*Summary of the Principal Documents*", "*Credit Structure*", "*Cashflows*" and "*The Portfolio*", below.

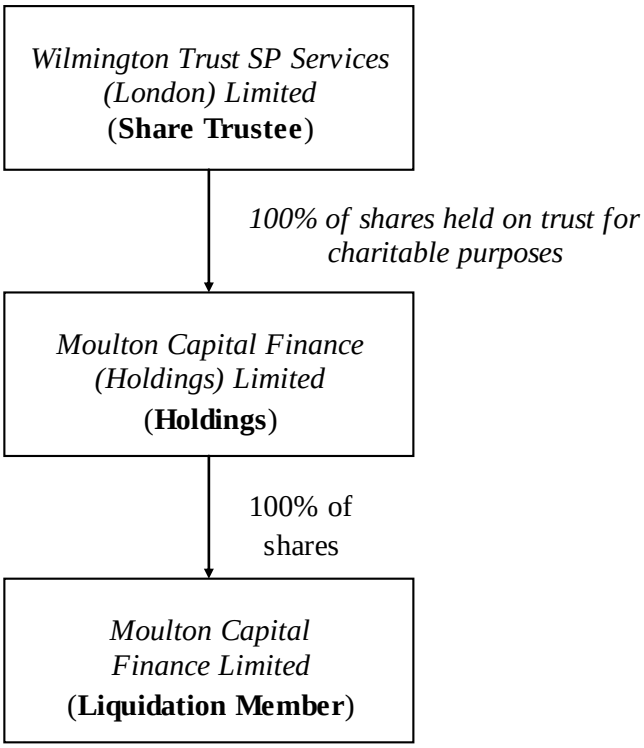
**Ownership Structure of Nationwide Covered Bonds LLP**

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



**Ownership Structure of the Liquidation Member**

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



## OVERVIEW OF THE PROGRAMME

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

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| **Issuer:** | Nationwide Building Society (**Nationwide** or the **Society**), incorporated in England and Wales under the Building Societies Act 1986 (as amended) of England and Wales (the **Building Societies Act**) (which expression shall include, where applicable, any statutory modification or re-enactment thereof or any statutory instrument, order or regulation made thereunder or under any statutory modification or re-enactment).<br><br>For a more detailed description of the Issuer see "*The Issuer*", below. |
| **The LLP:** | Nationwide Covered Bonds LLP, a limited liability partnership incorporated in England and Wales (registered no. OC313878). The Members of the LLP as at the date of this Base Prospectus are Nationwide (in its capacity as a Seller) and the Liquidation Member. The LLP is a special purpose vehicle whose business is to acquire, *inter alia*, Loans and their Related Security from the Seller pursuant to the terms of the Mortgage Sale Agreement and to guarantee the Covered Bonds. The LLP will hold the Portfolio and the other Charged Property in accordance with the terms of the Transaction Documents.<br><br>The LLP has provided a guarantee covering all Guaranteed Amounts when the same shall become Due for Payment, but only following the service on the LLP of a Notice to Pay or LLP Acceleration Notice. The obligations of the LLP under such guarantee and the other Transaction Documents to which it is a party are secured under the Deed of Charge by the assets from time to time of the LLP and recourse against the LLP is limited to such assets.<br><br>For a more detailed description of the LLP, see "*The LLP*", below. |
| **Seller:** | Nationwide, which is in the business of originating and acquiring residential mortgage loans and conducting other building society related activities.<br><br>For a more detailed description of Nationwide see "*The Issuer*", below. |
| **Servicer:** | Pursuant to the terms of the Servicing Agreement, Nationwide has been appointed to service, on behalf of the LLP, the Loans and Related Security sold by the Seller. |

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| **Cash Manager:** | Nationwide has also been appointed, *inter alia*, to provide cash management services to the LLP and to monitor compliance by the LLP with the Asset Coverage Test and the Amortisation Test pursuant to the terms of the Cash Management Agreement. |
| **Principal Paying Agent and Agent Bank:** | Citibank, N.A., London Branch, acting through its offices at Citigroup Centre, Canada Square, Canary Wharf, London E14 5LB has been appointed pursuant to the Agency Agreement as issuing and Principal Paying Agent and Agent Bank. |
| **Exchange Agent and Transfer Agent:** | Citibank, N.A., London Branch, acting through its offices at Citigroup Centre, Canada Square, Canary Wharf, London E14 5LB has been appointed pursuant to the Agency Agreement as Exchange Agent and Transfer Agent. |
| **Bond Trustee:** | Citicorp Trustee Company Limited, whose registered office is at Citigroup Centre, Canada Square, Canary Wharf, London E14 5LB has been appointed to act as Bond Trustee on behalf of the holders of the Covered Bonds in respect of the Covered Bonds and holds the benefit of, *inter alia*, the Covered Bond Guarantee on behalf of the holders of the Covered Bonds pursuant to the terms of the Trust Deed. |
| **Registrar:** | Citibank, N.A., London Branch, acting through its offices at Citigroup Centre, Canada Square, Canary Wharf, London E14 5LB has been appointed pursuant to the Agency Agreement as Registrar. |
| **Security Trustee:** | Citicorp Trustee Company Limited whose registered office is at Citigroup Centre, Canada Square, Canary Wharf, London E14 5LB has been appointed to act as Security Trustee to hold the benefit of the security granted by the LLP to the Security Trustee (for itself, the holders of the Covered Bonds and other Secured Creditors) under the Deed of Charge. |
| **Asset Monitor:** | A reputable institution acceptable to the Rating Agencies appointed pursuant to the Asset Monitor Agreement as an independent monitor to perform tests in respect of the Asset Coverage Test and the Amortisation Test and services as an asset pool monitor when required. |
| **Asset Pool Monitor** | The Asset Monitor has also been appointed as the "Asset Pool Monitor" (as defined in the RCB Regulations) for the purposes of the RCB Regulations (See "*Description of the UK Regulated Covered Bond Regime*" below). |
| **Covered Bond Swap Providers:** | Each swap provider which agrees to act as Covered Bond Swap Provider to the LLP to hedge certain interest rate, currency and/or other risks in respect of amounts received by the LLP under the Loans and the Interest Rate Swaps and amounts payable by the LLP under the Intercompany Loan Agreement (prior to the service of a Notice to Pay) and under the Covered Bond Guarantee in respect of the Covered Bonds (after service of a Notice to Pay) by entering into the Covered Bond Swaps with the LLP and the Security Trustee |

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| | under the Covered Bond Swap Agreements. In the event that the ratings of a Covered Bond Swap Provider fall below a specified ratings level, the relevant Covered Bond Swap Provider will be required to post collateral, obtain a guarantee of its obligations from an appropriately rated guarantor or put in place some other arrangement in order to maintain the then current ratings of the Covered Bonds. |
| **Interest Rate Swap Provider:** | Nationwide (in its capacity as the Interest Rate Swap Provider) has agreed to act as a swap provider to the LLP to hedge possible variances between the rates of interest payable on the Loans sold by the Seller to the LLP and LIBOR for three month Sterling deposits (payable by the LLP under the Covered Bond Swap Agreements and/or the Intercompany Loan Agreement and the Covered Bond Guarantee, as applicable) by entering into the Interest Rate Swaps with the LLP and the Security Trustee under the Interest Rate Swap Agreement. The Interest Rate Swap Provider will be required to post collateral, obtain a guarantee of its obligations or put in place some other arrangement in the event that its ratings fall below a specified ratings level.<br><br>For a more detailed description of the Interest Rate Swap Provider, see "*The Issuer*", below. |
| **GIC Provider:** | Nationwide has been appointed as the GIC Provider to the LLP pursuant to the terms of the Guaranteed Investment Contract. |
| **Account Bank:** | Nationwide has been appointed as the Account Bank to the LLP pursuant to the terms of the Bank Account Agreement. |
| **Stand-by GIC Provider:** | Citibank, N.A., London Branch acting through its office at Citigroup Centre, Canada Square, Canary Wharf, London E14 5LB has agreed to act as Stand-by GIC Provider to the LLP pursuant to the terms of the Stand-by Guaranteed Investment Contract. |
| **Stand-by Account Bank:** | Citibank, N.A., London Branch acting through its office at Citigroup Centre, Canada Square, Canary Wharf, London E14 5LB has agreed to act as Stand-by Account Bank to the LLP pursuant to the terms of the Stand-by Bank Account Agreement. |
| **Liquidation Member:** | Moulton Capital Finance Limited, a special purpose vehicle incorporated in England and Wales as a private limited company (registered no. 5372384). The Liquidation Member is 100% owned by Holdings. |
| **Holdings:** | Moulton Capital Finance (Holdings) Limited, a special purpose vehicle incorporated in England and Wales as a private limited company (registered no. 5372200). All of the shares of Holdings are held on behalf of the Share Trustee on trust for general charitable purposes. |
| **Share Trustee:** | Wilmington Trust SP Services (London) Limited, having its registered office at Third Floor, 1 King's Arms Yard, London EC2R 7AF. |

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| **Corporate Services Providers:** | Wilmington Trust SP Services (London) Limited, having its registered office at Third Floor, 1 King's Arms Yard, London EC2R 7AF, has been appointed to provide certain corporate services to the Liquidation Member and Holdings, pursuant to the Corporate Services Agreement. |
| **Description:** | Global Covered Bond Programme. |
| **Arranger:** | Barclays Bank PLC |
| **Dealers:** | Barclays Bank PLC, Citigroup Global Markets Limited, Deutsche Bank Aktiengesellschaft, HSBC Bank plc, J.P. Morgan Securities plc, Morgan Stanley & Co. International plc, The Royal Bank of Scotland plc, UBS Limited and any other Dealers appointed from time to time in accordance with the Programme Agreement. |
| **Certain Restrictions:** | Each issue of Covered Bonds denominated in a currency in respect of which particular laws, guidelines, regulations, restrictions or reporting requirements apply will only be issued in circumstances which comply with such laws, guidelines, regulations, restrictions or reporting requirements from time to time (see "*Subscription and Sale and Transfer and Selling Restrictions*"). |
| **Programme Size:** | Up to €45 billion (or its equivalent in other currencies determined as described in the Programme Agreement) outstanding at any time as described herein. The Issuer may increase the amount of the Programme in accordance with the terms of the Programme Agreement. |
| **Distribution:** | Covered Bonds may be distributed by way of private or public placement and in each case on a syndicated or non-syndicated basis, subject to the restrictions set forth in "*Subscription and Sale and Transfer and Selling Restrictions*" below. |
| **Specified Currencies:** | Subject to any applicable legal or regulatory restrictions, such currency or currencies as may be agreed from time to time by the Issuer, the relevant Dealer(s), the Principal Paying Agent and the Bond Trustee (as set out in the applicable Final Terms). |
| **Denomination of Covered Bonds:** | Covered Bonds will be issued in such denominations as may be agreed between the Issuer and the relevant Dealer(s) and as indicated in the applicable Final Terms save that except in the case of Covered Bonds which are intended to be admitted to trading on a regulated market of a European Economic Area stock exchange or offered to the public in a Member State of the European Economic Area in circumstances which would otherwise require the publication of a prospectus under the Prospectus Directive, the minimum denomination of each such Covered Bond will be at least €100,000 (or, if the Covered Bonds are denominated in a currency other than euro, at least the equivalent amount in such currency) or such other higher amount as may be required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the relevant Specified Currency. |

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| | Unless otherwise stated in the applicable Final Terms, the minimum denomination of each Definitive IAI Registered Covered Bond will be US$ 500,000 or its approximate equivalent in other Specified Currencies and the minimum denomination of each Definitive Rule 144A Covered Bond will be US$ 100,000 or its approximate equivalent in other Specified Currencies provided that it shall not be less than the equivalent of €100,000. |
| **Redenomination:** | The applicable Final Terms may provide that certain Covered Bonds may be redenominated in euro. If so, the redenomination provisions will be set out in the applicable Final Terms. |
| **Maturities:** | Such maturities as may be agreed between the Issuer and the relevant Dealer(s) and as indicated in the applicable Final Terms, subject to such minimum or maximum maturities as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the Issuer or the relevant Specified Currency. |
| **Issue Price:** | Covered Bonds may be issued at par or at a premium or discount to par. |
| **Form of Covered Bonds:** | The Covered Bonds will be issued in bearer or registered form as described in "*Form of the Covered Bonds*". Registered Covered Bonds will not be exchangeable for Bearer Covered Bonds and *vice versa*. |
| **Fixed Rate Covered Bonds:** | Fixed Rate Covered Bonds will bear interest at a fixed rate, which will be payable on such date or dates as may be agreed between the Issuer and the relevant Dealer(s) and on redemption and will be calculated on the basis of such Day Count Fraction as may be agreed between the Issuer and the relevant Dealer(s) (as set out in the applicable Final Terms). |
| **Floating Rate Covered Bonds:** | Floating Rate Covered Bonds will bear interest at a rate determined;<br>(a) on the same basis as the floating rate under a notional interest rate swap transaction in the relevant Specified Currency governed by an agreement incorporating the ISDA Definitions; or<br>(b) on the basis of a reference rate appearing on the agreed screen page of a commercial quotation service; or<br>(c) on such other basis as may be agreed between the Issuer and the relevant Dealer(s),<br>as set out in the applicable Final Terms.<br>The Margin (if any) relating to such floating rate will be agreed between the Issuer and the relevant Dealer(s) for each issue of Floating Rate Covered Bonds as set out in the applicable Final Terms. |

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

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

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

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

**Redemption:** The applicable Final Terms relating to each Tranche of Covered Bonds will indicate either that the relevant Covered Bonds of such Tranche cannot be redeemed prior to their stated maturity (other than for taxation reasons or if it becomes unlawful for any Term Advance to remain outstanding or following an Issuer Event of Default or an LLP Event of Default) or that such Covered Bonds will be redeemable at the option of the Issuer upon giving notice to the holders of the Covered Bonds, on a date or dates specified prior to such stated maturity and at a price or prices and on such other terms as may be agreed between the Issuer and the relevant Dealer(s) (as set out in the applicable Final Terms).

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

(a) any Revenue Receipts and Principal Receipts standing to the credit of the GIC Account on the date of such breach shall be credited to the Pre-Maturity Liquidity Ledger up to an amount not exceeding the Required Redemption Amount for

each Series of Hard Bullet Covered Bonds in respect of which the Pre-Maturity Test has been breached; and

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

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

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

The applicable Final Terms may also provide that the LLP's obligations under the Covered Bond Guarantee to pay the Guaranteed Amounts corresponding to the Final Redemption Amount of the applicable Series of Covered Bonds on their Final Maturity Date (subject to applicable grace periods) may be deferred until the Extended Due for Payment Date. In such case, such deferral will occur automatically if the Issuer fails to pay the Final Redemption Amount of the relevant Series of Covered Bonds on their Final Maturity Date (subject to applicable grace periods) and if the Guaranteed Amounts equal to the Final Redemption Amount in respect of such Series of Covered Bonds are not paid in full by the LLP by the Extension Determination Date (for example, because the LLP has insufficient moneys to pay in full the Guaranteed Amounts corresponding to the Final Redemption Amount in respect of the relevant Series of Covered Bonds after payment of higher ranking amounts and taking into account amounts ranking *pari passu* in the Guarantee Priority of Payments). To the extent that the LLP has received a Notice to Pay in sufficient time and has sufficient moneys to pay in part the Final Redemption Amount, such partial payment shall be made by the LLP on any Interest Payment Date up to and including the relevant Extended Due for Payment Date as described in Condition 6.1 (Final redemption). Interest will continue to accrue and be payable on the unpaid amount up to the Extended Due for Payment Date in accordance with Condition 4 (Interest) and the LLP will make payments of Guaranteed Amounts constituting Scheduled Interest on each relevant Due for Payment Date and Extended Due for Payment Date.

**Taxation:**

All payments in respect of the Covered Bonds will be made without deduction for or withholding or on account of any present or future taxes or duties of whatever nature imposed or levied by or on behalf of the United Kingdom, subject as provided in Condition 7 (Taxation). If any such deduction or withholding is made the Issuer will, save in the limited circumstances provided in Condition 7 (Taxation), pay such additional amounts as will result in the holder

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| | of any Covered Bond receiving such amounts as would have been receivable in respect of the Covered Bonds had no such withholding been required. Under the Covered Bond Guarantee, the LLP will not be liable to pay any such additional amounts payable by the Issuer under Condition 7 (Taxation). |
| **Cross Default:** | If an LLP Acceleration Notice is served in respect of any one Series of Covered Bonds, then the obligation of the LLP to pay Guaranteed Amounts in respect of all Series of Covered Bonds outstanding will be accelerated. |
| **Status of the Covered Bonds:** | The Covered Bonds issued from time to time in accordance with the Programme will constitute direct, unconditional, unsubordinated and unsecured obligations of the Issuer and will rank *pari passu* without any preference among themselves and (save for any applicable statutory provisions) at least equally with all other present and future unsecured and unsubordinated obligations of the Issuer, from time to time outstanding. |
| **Covered Bond Guarantee:** | Payment of Guaranteed Amounts in respect of the Covered Bonds when Due for Payment will be irrevocably guaranteed by the LLP. The obligations of the LLP to make payment in respect of the Guaranteed Amounts when Due for Payment are subject to the condition that an Issuer Event of Default occurs, an Issuer Acceleration Notice is served on the Issuer and a Notice to Pay is served on the LLP or, if earlier, an LLP Event of Default occurs and an LLP Acceleration Notice is served on the LLP. The obligations of the LLP under the Covered Bond Guarantee will accelerate against the LLP upon the service of an LLP Acceleration Notice. The obligations of the LLP under the Covered Bond Guarantee constitute direct obligations of the LLP secured against the assets from time to time of the LLP and recourse against the LLP is limited to such assets. |
| **Ratings:** | Covered Bonds to be issued under the Programme have, unless otherwise specified in the applicable Final Terms, been rated "AAA" by S&P, "Aaa" by Moody's and "AAA" by Fitch. The rating of certain Series of Covered Bonds to be issued under the Programme may be specified in the applicable Final Terms. Whether or not each credit rating applied for in relation to relevant Series of Covered Bonds will be issued by a credit rating agency established in the European Union and registered under the CRA Regulation will be disclosed in the Final Terms. Please also refer to "*Ratings of the Covered Bonds*" in the "*Risk Factors*" section of this Base Prospectus. |
| **Listing and admission to trading:** | Application has been made to admit the Covered Bonds (other than N Covered Bonds) issued under the Programme to the Official List and to trading on the regulated market of the London Stock Exchange. For the avoidance of doubt, such N Covered Bonds will not be issued pursuant to this Prospectus. |
| **The Regulated Covered Bonds Regulations:** | The Issuer has been admitted to the FCA's register of issuers and the Programme and all Covered Bonds previously issued under the |

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| | Programme have been admitted to the register of Regulated Covered Bonds under the RCB Regulations. |
| **Governing Law:** | The Covered Bonds, and any non-contractual obligations arising out of or in connection with them, will be governed by, and construed in accordance with, English law. |
| **Selling Restrictions:** | There are restrictions on the offer, sale and transfer of any Tranche of Covered Bonds in the United States, the United Kingdom, Japan and the Republic of Italy. Other restrictions may apply in connection with the offering and sale of a particular Tranche of Covered Bonds. See "*Subscription and Sale and Transfer and Selling Restrictions*". |
| **Risk Factors:** | There are certain risks related to any issue of Covered Bonds under the Programme, which investors should ensure they fully understand. A non-exhaustive overview of certain of such risks is set out under "*Risk Factors*" from page 27 of this Base Prospectus. |

# RISK FACTORS

*The Issuer and the LLP believe that the following factors may affect their ability to fulfil their respective obligations under the Covered Bonds issued under the Programme and the Covered Bond Guarantee. Most of these factors are contingencies which may or may not occur, and neither the Issuer nor the LLP are in a position to express a view on the likelihood of any such contingency occurring. In addition, risk factors which are specific to the Covered Bonds are also described below.*

*The Issuer and the LLP believe that the factors described below represent all the material and principal risks inherent in investing in the Covered Bonds issued under the Programme. However the inability of the Issuer or the LLP to pay interest, principal or other amounts on or in connection with any Covered Bonds may occur for other reasons which are not considered to be significant or which are currently unknown or which the Issuer and the LLP are unable to anticipate, and accordingly the Issuer and the LLP do not represent that the statements below regarding the risks of holding any Covered Bonds are exhaustive. As a result of some or all of the factors described below or for other reasons, it is possible that you may lose some or all of your investment. Prospective investors should also read the detailed information set out elsewhere in this Base Prospectus and reach their own views prior to making any investment decision.*

*This section of the Base Prospectus is divided into three main sections – General Risk Factors, Risk Factors relating to the Issuer and Risk Factors relating to the LLP.*

## GENERAL RISK FACTORS

### *Issuer is liable to make payments when due on the Covered Bonds*

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

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

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

### *Obligations under the Covered Bonds*

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

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

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

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

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

***Further issues***

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

- the Issuer will be obliged to apply the proceeds of any issue of Covered Bonds to make a Term Advance to the LLP. The LLP will use the proceeds of such Term Advance (after swapping the same into Sterling if necessary) (i) to acquire Loans and their Related Security from the Seller and/or (ii) to acquire Substitution Assets up to the prescribed limit to the extent required to meet the requirements of Regulations 23 and 24(1)(a) of the RCB Regulations and the Asset Coverage Test and thereafter such proceeds may be applied by the LLP:

    (a) to purchase Loans and their Related Security, from the Seller in accordance with the terms of the Mortgage Sale Agreement; and/or

    (b) to invest in Substitution Assets in an amount not exceeding the prescribed limit; and/or

    (c) (subject to complying with the Asset Coverage Test (as described below)) to make a Capital Distribution to a Member; and/or

    (d) if an existing Series or Tranche, or part of an existing Series or Tranche, of Covered Bonds is being refinanced (by the issue of a further Series or Tranche of Covered Bonds), to repay the Term Advance(s) corresponding to the Covered Bonds being so refinanced; and/or

    (e) to make a deposit of all or part of the proceeds in any GIC Account (including, without limitation, to fund the Reserve Fund to an amount not exceeding the prescribed limit);

- the Asset Coverage Test will be required to be met both before and immediately after any further issue of Covered Bonds; and

- on or prior to the date of issue of any further Covered Bonds, the Issuer will be obliged to obtain written confirmation from the Rating Agencies (addressed to the Issuer, the Bond Trustee and the

Security Trustee) that such further issue would not adversely affect the then current ratings of the existing Covered Bonds.

***Security Trustee's powers may affect the interests of the holders of the Covered Bonds***

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

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

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

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

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

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

There is not, at present, an active and liquid secondary market for the Covered Bonds, and no assurance is provided that a secondary market for the Covered Bonds will develop. The Covered Bonds have not been, and will not be, registered under the Securities Act or any other applicable securities laws and are subject to certain restrictions on the resale and other transfer thereof as set forth under "*Subscription and Sale and Transfer and Selling Restrictions*". To the extent a secondary market develops, it may not continue for the

life of the Covered Bonds or it may not provide holders of the Covered Bonds with liquidity of investment with the result that a holder of the Covered Bonds may not be able to find a buyer to buy its Covered Bonds readily or at prices that will enable the holder of the Covered Bonds to realise a desired yield. Consequently, a Covered Bondholder must be able to bear the economic risk of an investment in a Covered Bond for an indefinite period of time.

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

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

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

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

***Ratings of the Covered Bonds***

The ratings assigned to the Covered Bonds address:

- the likelihood of full and timely payment to holders of the Covered Bonds of all payments of interest on each Interest Payment Date; and

- the likelihood of ultimate payment of principal in relation to Covered Bonds on (a) the Final Maturity Date thereof, or (b) if the Covered Bonds are subject to an Extended Due for Payment Date in respect of the Covered Bond Guarantee in accordance with the applicable Final Terms, on the Extended Due for Payment Date thereof.

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

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

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

the rating of the Issuer by the Rating Agencies may have a negative impact on the ratings of the Covered Bonds.

In general, European regulated investors (such as investment firms, insurance and reinsurance undertakings, UCITS funds and certain hedge fund managers) are restricted under the CRA Regulation from using credit ratings issued by a credit rating agency for regulatory purposes, unless such ratings are issued by a credit rating agency established in the EU and registered under the CRA Regulation (and such registration has not been withdrawn or suspended). Such general restriction will also apply in the case of credit ratings issued by non-EU credit rating agencies, unless the relevant credit ratings are endorsed by an EU-registered credit rating agency or the relevant non-EU rating agency is certified in accordance with the CRA Regulation (and such endorsement action or certification, as the case may be, has not been withdrawn or suspended). The list of registered and certified rating agencies published by the European Securities and Markets Authority (**ESMA**) on its website in accordance with the CRA Regulation is not conclusive evidence of the status of the relevant rating agency included in such list, as there may be delays between certain supervisory measures being taken against a relevant rating agency and the publication of the updated ESMA list. Certain information with respect to the credit rating agencies and ratings referred to in this Base Prospectus, is set out in "*Overview of the Programme – Ratings*" of this Base Prospectus.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Pursuant to the terms of the Trust Deed and the Deed of Charge, the Bond Trustee and the Security Trustee may, without the consent or sanction of any of the holders of the Covered Bonds or any of the other Secured Creditors, concur with any person in making or sanctioning any modifications to the Transaction Documents:

- provided that the Bond Trustee and the Security Trustee are each of the opinion that such modification, waiver or authorisation will not be materially prejudicial to the interest of any of the holders of the Covered Bonds; or

- which in the opinion of the Bond Trustee and the Security Trustee are made to correct a manifest error (or an error established as such to the satisfaction of the Bond Trustee and the Security Trustee) or of a formal, minor or technical nature or are made to comply with mandatory provisions of law,

  provided that, in respect of any proposed modification, waiver or authorisation, prior to the Bond Trustee and the Security Trustee agreeing to any such modification, waiver or authorisation, the Issuer must send written confirmation to the Bond Trustee and the Security Trustee:

  (a) that such modification, waiver or authorisation, as applicable, would not result in a breach of the RCB Regulations or the Regulated Covered Bonds Sourcebook (the **RCB Sourcebook**) published under the FSMA 2000 or result in the Issuer, the Programme and/or any Covered Bonds issued under the Programme ceasing to be registered under the RCB Regulations; and

  (b) that either:

  (i) such modification, waiver or authorisation would not require the FCA to be notified in accordance with Regulation 20 of the RCB Regulations; or

  (ii) if such modification, waiver or authorisation would require the FCA to be notified in accordance with Regulation 20 of the RCB Regulations, the Issuer has provided all information required to be provided to the FCA and, the FCA has given its consent to such proposed modification, waiver, authorisation or determination.

The Bond Trustee and the Security Trustee shall each, without the consent of the holders of any of the Covered Bonds or any other Secured Creditor (other than any Secured Creditor party to the relevant Transaction Document to be amended) be obliged to concur with the Issuer and/or the LLP in making any modifications to the Transaction Documents and/or the Conditions of the Covered Bonds that are requested in writing by the Issuer and/or the LLP in order to enable the Issuer to comply with any requirements which apply to it under Regulation (EU) 648/2012 (the **European Market Infrastructures Regulation** or **EMIR**) irrespective of whether or not such modifications might otherwise constitute a Series Reserved Matter (which neither the Bond Trustee nor the Security Trustee shall be required to investigate) (in each case, an **EMIR Amendment**), subject to receipt by the Bond Trustee and/or, as the case may be, the Security Trustee of a certificate of the Issuer (which certificate the Bond Trustee and/or, as the case may be, the Security Trustee shall be entitled to rely on without further investigation) certifying to the Bond Trustee and/or, as the case may be, the Security Trustee that the requested amendments are to be made solely for the purpose of enabling the Issuer and/or the LLP to satisfy any requirements which apply to either of them under EMIR.

The Bond Trustee and the Security Trustee shall each, without the consent of the holders of any Covered Bonds or any other Secured Creditor be obliged to concur with the LLP or Cash Manager, as applicable, in making any amendments to give effect to the accession of any Additional Account Bank, replacement Account Bank, Additional Stand-by Account Bank and/or the Additional Stand-by GIC Provider to the Programme or the opening of any additional GIC Accounts, Covered Bond Swap Collateral Accounts, Interest Rate Swap Collateral Accounts, GIC Collateral Custody Accounts, Stand-by GIC Accounts, Stand-by Transaction Accounts, Stand-by Covered Bond Swap Collateral Accounts and Stand-by Interest Rate Swap Collateral Accounts (an **Additional Account Bank Required Amendment**) provided that the LLP or the Cash Manager, as the case may be, has certified to the Bond Trustee in writing that (i) such modifications are required in order to give effect to any Additional Account Bank Required Amendment and (ii) all other conditions precedent set out in the Deed of Charge have been satisfied at the time of the accession of the relevant account bank or opening of such account and such accession shall not cause the then current ratings of the Covered Bonds to be adversely affected or withdrawn as a consequence.

The Bond Trustee and the Security Trustee shall each, without the consent of the holders of any Covered Bonds or any other Secured Creditor be obliged to concur with the Issuer, LLP, Cash Manager or the relevant Swap Provider, as applicable, in making (i) any modifications to a Swap Agreement requested by the relevant Swap Provider to reflect updated or new rating criteria of Fitch, Moody's or S&P (the **New Rating Criteria**) and (ii) any modifications to the Transaction Documents requested by the Issuer, the LLP or the Cash Manager which are consequential to such modifications to the Swap Agreement (in each case under (i) or (ii) above, a **New Rating Criteria Amendment**), irrespective of whether or not such modifications might otherwise constitute a Series Reserved Matter and irrespective of whether or not such modifications might otherwise be materially prejudicial to the interests of the holders of any Covered Bonds (which, in each case, the Bond Trustee shall not be required to investigate) provided that the relevant Swap Provider has certified in writing to the Bond Trustee and the Security Trustee that such modifications to the Swap Agreement are being made solely for the purpose of addressing the New Rating Criteria and, if applicable, the Issuer, the LLP and Cash Manager has certified in writing to the Bond Trustee and the Security Trustee that such modifications to the Transaction Documents are being made solely as a consequence of the modifications to the Swap Agreement (and each of the Bond Trustee and the Security Trustee shall be entitled to rely upon such certifications without any further inquiry and shall not incur any liability to any person for so doing); and further provided that any such modifications shall not cause the then current ratings of the Covered Bonds to be adversely affected or withdrawn as a consequence.

The Bond Trustee and the Security Trustee shall each, without the consent of the holders of any Covered Bonds or any other Secured Creditor (other than any Secured Creditor party to the relevant Transaction Documents to be amended) be obliged to concur with the Issuer, LLP, Cash Manager or the relevant Swap Provider, as applicable, in making (i) any modifications to a Swap Agreement requested by the LLP or the relevant Swap Provider to reflect the fact that certain provisions, rules, regulations, directions, processes, guidelines and procedures relating to any applicable laws or regulations affecting the regulatory treatment of the LLP or the relevant Swap Provider (including, without limitation, any associated regulatory or implementing technical standards and advice, guidance or recommendations from relevant competent authorities or ESMA) have been clarified, updated, delivered, amended, modified or become operative or applicable (the **New Regulatory Requirements**) and (ii) any modifications to the Transaction Documents requested by the Issuer, LLP or the Cash Manager which are consequential to such modifications to the Swap Agreement (in each case, a **New Regulatory Requirements Amendment**), irrespective of whether or not such modifications might otherwise constitute a Series Reserved Matter and irrespective of whether or not such modifications might otherwise be materially prejudicial to the interests of the holders of any Covered Bonds (which, in each case, the Bond Trustee shall not be required to investigate) provided that the party requesting the modification certifies in writing to the Bond Trustee and the Security Trustee that such modifications to the Swap Agreement are being made solely for the purpose of addressing the New Regulatory Requirements and, if applicable, the Issuer, the LLP or Cash Manager certifies in writing to the Bond Trustee and the Security Trustee that such modifications to the Transaction Documents are being made solely as a consequence of the modifications to the Swap Agreement (and each of the Bond Trustee and the Security Trustee shall be entitled to rely upon such certifications without any further inquiry and shall not incur any liability to any person for so doing); and further provided that any such modifications shall not cause the then current ratings of the Covered Bonds to be adversely affected or withdrawn as a consequence.

The Bond Trustee and the Security Trustee shall each, without the consent of the holders of any Covered Bonds or any other Secured Creditor (other than any Secured Creditor party to the relevant Transaction Documents to be amended) be obliged to concur with the LLP, Cash Manager or the relevant Swap Provider, as applicable, in making any waiver of or modifications to any provision(s) of a Swap Agreement (in each case, a **Rating Event Amendment**) as will result in the rating of the Covered Bonds by Fitch, Moody's or S&P, following the occurrence of an event under a Swap arising from a downgrade by such relevant rating agency of the rating of the relevant Swap Provider (or the Swap Provider's guarantor or other relevant party) which triggers an obligation on the Swap Provider to take remedial measures under the relevant Swap Agreement (each such event, a **Rating Event**), being maintained at, or restored to, the level at which it was immediately prior to the occurrence of a Rating Event (each a **Ratings Cure Event**), irrespective of whether

or not such modifications might otherwise constitute a Series Reserved Matter and irrespective of whether or not such modifications might otherwise be materially prejudicial to the interests of the holders of any Covered Bonds (which, in each case, the Bond Trustee shall not be required to investigate) provided that the relevant Swap Provider, the LLP or the Cash Manager, as the case may be, has certified to the Security Trustee and the Bond Trustee in writing that such waivers or modifications are required in order to accommodate the Ratings Cure Event (and each of the Bond Trustee and the Security Trustee shall be entitled to rely upon such certification without any further inquiry and shall not incur any liability to any person for so doing); and further provided that any such waivers or modifications shall not cause the then current ratings of the Covered Bonds to be adversely affected or withdrawn as a consequence.

The Bond Trustee and the Security Trustee shall each, without the consent of the holders of any Covered Bonds or any other Secured Creditor (other than any Secured Creditor party to the relevant Transaction Documents to be amended) be obliged to concur with the Issuer, the LLP, Cash Manager or the relevant Swap Provider, as applicable, in making any modifications to any Transaction Document (in each case, a **New Rating Counterparty Criteria Amendment**) requested by the Issuer, the LLP or the Cash Manager to reflect updated or new counterparty criteria of Fitch, Moody's or S&P (the **New Rating Counterparty Criteria**), irrespective of whether or not such modifications might otherwise constitute a Series Reserved Matter and irrespective of whether or not such modifications might otherwise be materially prejudicial to the interests of the holders of any Covered Bonds (which, in each case, the Bond Trustee shall not be required to investigate), provided that (i) the Issuer, the LLP or the Cash Manager has certified in writing to the Bond Trustee and the Security Trustee that such modifications are being made solely for the purpose of addressing the New Rating Counterparty Criteria (and each of the Bond Trustee and the Security Trustee shall be entitled to rely upon such certifications without any further inquiry and shall not incur any liability to any person for so doing), (ii) any such modifications shall not cause the then current ratings of the Covered Bonds to be adversely affected or withdrawn as a consequence and (iii) any such modifications shall not impose any additional obligations on the Bond Trustee or the Security Trustee.

The Bond Trustee and the Security Trustee shall not be obliged to agree to any modification which, in the sole opinion of the Bond Trustee and/or the Security Trustee, as applicable, would have the effect of (a) exposing the Bond Trustee and/or the Security Trustee, as applicable, to any liability against which it has not been indemnified and/or secured and/or pre-funded to its satisfaction or (b) increasing the obligations or duties, or decreasing the protections, of the Bond Trustee and/or the Security Trustee, as applicable, in the Transaction Documents and/or the Conditions of the Covered Bonds.

In each case of an Additional Account Bank Required Amendment, an EMIR Amendment, a New Rating Criteria Amendment, a New Regulatory Requirements Amendment, a Rating Event Amendment and a New Rating Counterparty Criteria Amendment, the Issuer must send written confirmation to the Bond Trustee that such modification would not result in a breach of the RCB Regulations and that either (i) such modification would not require the FCA to be notified in accordance with Regulation 20 of the RCB Regulations; or (ii) if such modification would require the FCA to be notified in accordance with Regulation 20 of the RCB Regulations, the Issuer has provided all information required to be provided to the FCA and the FCA has given its consent to such proposed modification.

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

Any Extraordinary Resolution to direct the Bond Trustee to serve an Issuer Acceleration Notice and a Notice to Pay following an Issuer Event of Default, to direct the Bond Trustee to serve an LLP Acceleration Notice following an LLP Event of Default and any direction to the Bond Trustee or Security Trustee to take any enforcement action must be passed at a single meeting of the holders of all Covered Bonds of all Series then outstanding.

***Political uncertainty in the UK***

On 23 June 2016 the UK held a referendum on whether the UK should remain a member of the European Union. The UK voted to leave the European Union. The announcement of the referendum result caused significant volatility in global stock markets and currency exchange rate fluctuations that resulted in a significant weakening of the Sterling against the US Dollar, the euro and other major currencies. As a result, there are a number of uncertainties in connection with the future of the UK and its relationship with the European Union. The negotiation of the UK's exit terms is likely to take a number of years. Until the terms and timing of the UK's exit from the European Union are confirmed, it is not possible to determine the impact that the referendum, the UK's departure from the European Union and/or any related matters may have on general economic conditions in the UK (including on the performance of the UK housing market) and/or on the business of the Issuer or any other party to the Transaction Documents.

Prospective investors should also note that the regulatory position of the Covered Bonds may be affected as a result of provisions under the current regime which restrict the availability of preferential treatment (including with respect to investment limits, regulatory capital and liquidity standards) to covered bonds issued by a credit institution with its registered office in an European Economic Area (**EEA**) state. It is uncertain whether such preferential treatment will remain available in respect of the Covered Bonds following the departure of the UK from the European Union and this will depend in part on the terms of the UK's exit. Investors in the Covered Bonds are responsible for analysing their own regulatory position and none of the Issuer, the Arranger or, the Dealers makes any representation to any prospective investor regarding the regulatory treatment of their investment at the time of investment or at any time in the future.

Investors should also note that future UK political developments, including but not limited to the UK departure from the European Union and/or any changes in government structure and policies, could affect the fiscal, monetary and regulatory landscape to which the Nationwide Group is subject and also therefore its financing availability and terms. Consequently no assurance can be given that the Nationwide Group operating results, financial condition and prospects would not be adversely impacted as a result.

In general, no assurance can be given that any of the matters outlined above would not adversely affect the ability of the Issuer to satisfy its obligations under the Covered Bonds and/or the market value or liquidity of the Covered Bonds.

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

***Departure of one or more other member countries from the Eurozone, economic or financial instability or contagion could develop, which could adversely affect the Issuer***

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 the Issuer. This could also give rise to operational disruptions to the Issuer's business.

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 the Issuer's 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 the Issuer's 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 the Issuer's results of operations, financial condition or prospects.

***EU financial transaction tax***

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

The Commission's Proposal has very broad scope and could, if introduced, apply to certain dealings in Covered Bonds (including secondary market transactions) in certain circumstances. The issuance and subscription of Covered Bonds should, however, 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 Covered Bonds where at least one party is a financial institution, and at least one party is established in a participating Member State. A financial institution may be, or be deemed to be, "established" in a participating Member State in a broad range of circumstances, including (a) by transacting with a person established in a participating Member State or (b) where the financial instrument which is subject to the dealings is issued in a participating Member State.

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

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

***Changes of law***

The structure of the issue of the Covered Bonds and the ratings which are to be assigned to them are based on English law, (and, in relation to the Scottish Loans and Northern Irish Loans, Scots law and Northern Irish law respectively) in effect as at the date of this Base Prospectus. No assurance can be given as to the impact of any possible change to English law, Scots law or Northern Irish law or administrative practice in the United Kingdom after the date of this Base Prospectus.

***UK regulated covered bond regime***

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

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

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

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

***Expenses of insolvency officeholders***

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

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

See also the investment consideration described below under "*Liquidation expenses*".

***Insolvency Act 2000***

Significant changes to the United Kingdom insolvency regime have been enacted since 2000, including the Insolvency Act 2000, the relevant provisions of which came into force on 1 January 2003. The Insolvency

Act 2000 allows certain "small" companies to seek protection from their creditors for a period of 28 days for the purposes of putting in place a company voluntary arrangement with the option for creditors to extend the moratorium for a further two months. The moratorium provisions of the Insolvency Act 2000 do not expressly state that they apply to limited liability partnerships (such as the LLP). Prior to 1 October 2005, there was some doubt as to whether the moratorium provisions of the Insolvency Act 2000 applied to limited liability partnerships such as the LLP. However, on 1 October 2005, the Limited Liability Partnership (Amendment) Regulations 2005 made it clear that the moratorium provisions apply to limited liability partnerships subject to certain modifications.

For financial periods beginning on or after 1 January 2016, a "small" company is defined as one which satisfies two or more of the following criteria: (i) its turnover is not more than £10.2 million; (ii) its balance sheet total is not more than £5.1 million; and (iii) the number of employees is not more than 50. The position as to whether or not a company is a "small" company may change from time to time and consequently no assurance can be given that the LLP, at any given time, will not be determined to be a "small" company. The United Kingdom Secretary of State for Business, Innovation and Skills may by regulation modify the eligibility requirements for "small" companies and can make different provisions for different cases. No assurance can be given that any such modification or different provisions will not be detrimental to the interests of the Covered Bondholders.

Secondary legislation has now been enacted which excludes certain special purpose companies in relation to capital markets transactions from the optional moratorium provisions. Such exceptions include (a) a company which, at the time of filing for a moratorium, is a party to an agreement which is or forms part of a "capital market arrangement" (as defined in the secondary legislation) under which a party has incurred, or when the agreement was entered into was expected to incur, a debt of at least £10 million and which involves the issue of a "capital market investment" (also defined but generally a rated, listed or traded bond) and (b) a company which, at the time of filing for a moratorium, has incurred a liability (including a present, future or contingent liability and a liability payable wholly or partly in a foreign currency) of at least £10 million. While the LLP is expected to fall within one of the exceptions there is no guidance as to how the legislation will be interpreted and the Secretary of State for Business, Innovation and Skills may by regulation modify the exceptions. No assurance can be given that any modification of the exceptions will not be detrimental to the interests of the Covered Bondholders. Correspondingly, if the LLP is determined to be a "small" company and determined not to fall within one of the exceptions, then certain actions in respect of the LLP may, for a period, be prohibited by the imposition of a moratorium.

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

The LLP has entered into the Deed of Charge pursuant to which it will grant the Security in respect of its obligations under the Covered Bond Guarantee (as to which, see "*Summary of Principal Documents – Deed of Charge*"). In certain circumstances, including the occurrence of certain insolvency events in respect of the LLP, the ability to realise the Security may be delayed and/or the value of the Security impaired. While the transaction structure is designed to minimise the likelihood of the LLP becoming insolvent, there can be no assurance that the LLP will not become insolvent and/or the subject of insolvency proceedings and/or that the Covered Bondholders would not be adversely affected by the application of insolvency laws (including English insolvency laws and, if appropriate, Scottish and Northern Irish insolvency laws).

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

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

***Insolvency proceedings and subordination provisions***

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

The U.K. Supreme Court has held in *Belmont Park Investments Pty Limited v BNY Corporate Trustee Services Ltd and Lehman Brothers Special Financing Inc* [2011] UKSC 38 (the **Belmont decision**) that a flip clause as described above is valid under English law. Contrary to this, however, a U.S. Bankruptcy Court has held in two separate cases that such a subordination provision is unenforceable under U.S. bankruptcy law and that any action to enforce such provision would violate the automatic stay which applies under such law in the case of a U.S. bankruptcy of the counterparty. The implications of these conflicting judgments are not yet known, particularly as the same U.S. Bankruptcy Court approved, in December 2010, the settlement of one of the cases to which the judgment relates and subsequently the appeal was dismissed. However, there remains a stayed action in the U.S. commenced by the Lehman Brothers Chapter 11 debtors concerning the enforceability of flip clauses and, in addition, in February 2012, a complaint was filed by certain parties seeking recognition and enforcement of the Belmont decision (and corresponding lower court decisions) and other declaratory relief with respect to the flip clause in question in the case described above. It is not yet known when the complaint will be addressed.

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

***Enterprise Act 2002***

The Insolvency Act contains provisions which continue to allow for the appointment of an administrative receiver in relation to certain transactions in the capital markets. These provisions apply to the LLP as if it were a company. The relevant exception provides that the right to appoint an administrative receiver is retained for certain types of security (such as the Security) which form part of a capital market arrangement (as defined in the Insolvency Act), which would include the issue of covered bonds, and which involves indebtedness of at least £50,000,000 (or, when the relevant security document (being in respect of the transactions described in this Base Prospectus, the Deed of Charge) was entered into, a party to the relevant transaction (such as the Issuer) was expected to incur a debt of at least £50,000,000) and the issue of a capital market investment (also defined but generally a rated, listed or traded bond). The Secretary of State may, by secondary legislation, modify the capital market exception and/or provide that the exception shall cease to have effect. No assurance can be given that any such modification or provision in respect of the capital market exception, or its ceasing to be applicable to the transactions described in this Base Prospectus, will not be detrimental to the interests of the Covered Bondholders.

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

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

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

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

All financial institutions, including the Nationwide Group, are subject to liquidity risk as an inherent part of their business. Liquidity risk is the risk that an institution may not have sufficient funds at any time to make full payment in respect of liabilities falling due at that time.

If the Nationwide Group's access to liquidity is constrained for a prolonged period of time, this could affect its profitability. Whilst the Nationwide Group expects to have sufficient liquidity to meet its funding requirements even in a market wide stress scenario, under extreme and unforeseen circumstances a prolonged and severe restriction on the Nationwide Group's access to liquidity (including government and central bank funding and liquidity support) could affect the Nationwide Group's ability to meet its financial obligations as they fall due, to meet its regulatory minimum liquidity requirements, or to fulfil its commitments to lend. In such extreme circumstances the Nationwide Group may not be in a position to continue to operate without additional funding support. Inability to access such support could have a material impact on the Nationwide Group's solvency. These risks can be exacerbated by many enterprise-specific factors, including an over-reliance on a particular source of funding, changes in credit ratings, or market-wide phenomena such as market dislocation and major disasters. There is also a risk that the funding structure employed by the Nationwide Group may prove to be inefficient giving rise to a level of funding cost that is not sustainable in the long term to grow the business or even maintain it at current levels.

Nationwide raises funds principally through accepting retail deposits and in the wholesale funding market. It also has a core portfolio of liquid investments as well as a range of other assets which are a further source of liquidity to it. The ability of the Nationwide Group 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 its control, such as liquidity constraints, general market conditions, regulatory requirements and loss of confidence in the UK banking system.

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

The maintenance and growth of the level of the Issuer's lending activities depends in large part on the availability of retail deposit funding on appropriate terms. Increases in the costs of such funding in the wake of the financial crisis together with the low base rate environment had a negative impact on the Issuer's 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 the Issuer's retail deposit base, upon which the

Issuer relies for lending and which could have a material adverse effect on the Issuer's business, financial position and results of operations.

## RISK FACTORS RELATING TO THE ISSUER

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

The Issuer's business activities are concentrated in the UK and the Issuer offers a range of banking and financial products and services to UK retail and corporate customers. As a consequence, the Issuer's operating results, financial condition and prospects are significantly affected by the general economic conditions in the UK economy and the economic confidence of consumers and businesses.Adverse changes in UK economic conditions could lead to a decline in the credit quality of the Issuer's borrowers and counterparties, which could reduce the recoverability and value of the Issuer's assets and require an increase in the Issuer's level of provisions for bad and doubtful debts. Likewise, a significant reduction in the demand for the Issuer's products and services could negatively impact the Issuer's business and financial condition. There remains a risk that 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 the Issuer's 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 the Issuer's loan portfolio and may result in a rise in delinquency and default rates. There can be no assurance that the Issuer will not have to increase its provisions for loan losses in the future as a result of increases in non-performing loans and/or for other reasons beyond its control. Material increases in the Issuer's provisions for loan losses and write-offs/charge-offs could have an adverse effect on the Issuer's operating results, financial condition and prospects.

The durability of the UK economic recovery, along with its concomitant impacts on the Issuer's profitability, remains a risk. 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 the Issuer's products and services could have a material adverse effect on the Issuer's operating results, financial condition and prospects.

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

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 the Issuer may also experience an increase in its cost of funding, as described under "—An increasing interest rate environment or tightening monetary policy, whether by the UK, US or other central banking authorities, could affect the financial condition of the Issuer's customers, clients and counterparties, which could in turn adversely affect the Issuer".

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

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

The Issuer is directly and indirectly subject to inherent risks arising from general economic conditions in the UK and other economies, particularly the Eurozone. The 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 the Issuer and many of its 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 the Issuer's 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 "*—Political uncertainty in the UK" and "—Departure of one or more other member countries from the Eurozone, economic or financial instability or contagion could develop, which could adversely affect the Issuer*."

Although globally, market conditions have generally stabilised, 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 the Issuer, including its ability to access capital and liquidity on financial terms acceptable to it, if at all. If capital markets financing ceases to become available, or becomes excessively expensive, the Issuer may be forced to raise the rates it pays on deposits to attract more customers and it 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 the Issuer's interest margins, liquidity and profitability.

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

Like all major financial institutions, the Issuer is dependent on the short- and long-term wholesale funding markets for liquidity.

The Issuer's business is subject to risks concerning liquidity, which are inherent in financial institutions operations. If access to liquidity is constrained for a prolonged period of time, this could affect the Issuer's profitability. Under exceptional circumstances, the Issuer's ability to fund its financial obligations could be negatively impacted if it is unable to access funding on commercially practicable terms, or at all. While the Issuer expects to have sufficient liquidity to meet its funding requirements even in a market-wide stress

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

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

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

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

In addition, given that other financial institutions also have increased needs for funding in the absence of Government support, the Issuer expects to face increased competition for funding, particularly retail funding on which it is reliant in the future. This competition could further increase the Issuer's funding costs and so adversely impact the Issuer's 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 the Issuer's customers, clients and counterparties, which could in turn adversely affect the Issuer.***

The prevailing level of interest rates and the provision or withdrawal of other accommodative monetary and fiscal policies, which are impacted by factors outside of the Issuer's control, including the fiscal and monetary policies of governments and central banks, as well as UK and international political and economic conditions, affect 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 (40.0% 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 the Issuer operates, and consequently to an increase in delinquency rates and default rates among customers. Moreover, higher prevailing interest rates would affect the Issuer's cost of funding with depositors and creditors, which could adversely affect the Issuer's profitability, to the extent the Issuer's margins decline.

The personal sector in the UK remains heavily indebted and vulnerable to increases in unemployment, rising interest rates and/or falling house prices. As a result of, among other factors, increases and decreases in the Bank of England base rate, interest rates payable on a significant portion of the Issuer's outstanding mortgage loan products fluctuate over time. Rising interest rates would put pressure on borrowers whose loans are linked to the Bank of England base rate because such borrowers may experience financial stress in repaying at increased rates in the future. A significant portion of the Issuer's outstanding mortgage loan products are potentially subject to changes in interest rates, resulting in borrowers with a mortgage loan subject to a variable rate of interest or with a mortgage loan for which the related interest rate adjusts following an initial fixed rate or low introductory rate, as applicable, being exposed to increased monthly payments as and when the related mortgage interest rate adjusts upward (or, in the case of a mortgage loan with an initial fixed rate or low introductory rate, at the end of the relevant fixed or introductory period). 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 the Issuer's secured residential mortgage loan and unsecured consumer loan portfolios which, in turn, would lead to an increase in the Issuer's impairment charges in respect of these portfolios. Declines in housing prices may also leave borrowers with insufficient equity in their homes to permit them to refinance. These events, alone or in combination, may contribute to higher delinquency rates and losses.

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

***The Issuer's 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 the Issuer's businesses. Adverse changes in the credit quality of the Issuer's 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 the Issuer's assets and require an increase in its impairment provision for bad and doubtful debts and other provisions.

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

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

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

If sentiment towards banks, building societies and/or other financial institutions operating in the United Kingdom, including the Issuer, were to further deteriorate, or if the Issuer's ratings and/or the ratings of the sector were to be further adversely affected, this may have a materially adverse impact on the Issuer. 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 the Issuer. Any such events could affect the market value of the Covered Bonds.

Any future declines in those aspects of the Issuer's business identified by the rating agencies as significant or otherwise could adversely affect the rating agencies' perception of its credit and cause them to take further negative ratings actions. Any downgrade in the Issuer's credit ratings could adversely affect its liquidity and competitive position, particularly through cash outflows to meet collateral requirements on existing contracts, undermine confidence in its business, increase its borrowing costs, limit access to the capital markets, or limit the range of counterparties willing to enter into transactions with the Issuer. Nationwide has 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. The Issuer's credit ratings are subject to change and could be downgraded as a result of many factors, including the failure to successfully implement its strategies. A downgrade could also lead to a loss of customers and counterparties which could have a material adverse effect on the Issuer's business, results of operations and financial condition.

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

further downgrade may also negatively impact the marketability and trading value of the Covered Bonds as well as the Issuer's credit ratings, borrowing costs and ability to fund itself.

In February and April 2013, respectively, Moody's and Fitch reduced the UK's long-term ratings, from Aaa to Aa1 (in the case of Moody's) and from AAA to AA+ (in the case of Fitch) and, subsequently on 13 June 2014, Fitch affirmed its AA+/F1+ long- and short-term unsolicited sovereign credit ratings for the UK. On 24 June 2016, Moody's changed the outlook on the UK's long-term ratings to negative from stable and affirmed the rating at Aa1 and on 27 June 2016, Fitch lowered its long-term ratings to AA, outlook negative.

On 20 December 2013, S&P affirmed its AAA/A-1+ long- and short-term unsolicited sovereign credit ratings for the UK, with a negative outlook. Although on 22 May 2014, S&P revised the outlook to stable, on 12 June, 2015, S&P changed the outlook back to negative. On 27 June 2016, S&P lowered its unsolicited long-term foreign and local currency sovereign credit ratings on the United Kingdom to AA from AAA, with a negative outlook and affirmed its A-1+ short-term unsolicited sovereign credit ratings.

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 continued instability in the UK and in the global financial markets. The Issuer's financial performance has been and will 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 its earnings and profitability to decline.

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

The Issuer operates in an increasingly competitive UK personal financial services market. It competes mainly with other providers of personal finance services, including banks, building societies and insurance companies.

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 a 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 the Issuer's ability to deliver its strategic income targets and its 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 the Issuer's competitors, regulatory actions and other factors. If increased competition were to occur as a result of these or other factors, the Issuer's 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 17 May 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 the Issuer's 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 the Issuer considers to be a competitive advantage. This may, in time, alter the business models of ring-fenced banks and may therefore alter adversely the competitive position of the Issuer 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, the Issuer expects customers to transact more, and in many different ways. The Issuer 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 the Issuer's customer service levels were perceived by the market to be materially below those of competitor UK financial institutions, it could lose existing and potential new business. If the Issuer is not successful in retaining and strengthening customer relationships, it may lose market share, incur losses on some or all of its activities or fail to attract new deposits or retain existing deposits, which could have a material adverse effect on the Issuer's business, financial condition and results of operations.

***If the Issuer does not control its financial and operational risks, the Issuer may be unable to manage its business.***

The Issuer's success as a financial institution depends on its ability to manage and control its financial risk, which includes liquidity, market, and credit risk. The Issuer is exposed to liquidity risk as a result of mismatches in cash flows from balance sheet assets and liabilities and off-balance sheet financial instruments. The Issuer has 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 the Issuer fails to manage and control these risks, it could become unable to meet its own obligations, including those under the Covered Bonds, resulting in material adverse effects to its business, financial condition and reputation. For additional information about the Issuer's policies for managing and controlling liquidity, market and credit risk, see the section entitled "*Financial Risk Management*".

The Issuer's business is also dependent on its 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 the Issuer's suppliers or counterparties. In particular, increased digital interconnectivity across the Nationwide Group, its customers and suppliers, and the need for cyber security, remains an evolving risk to financial institutions including the Issuer. Although the Issuer maintains measures designed to ensure the integrity of key systems and processes, the Issuer may be the victim of cyber-attacks, which could disrupt service for customers, and cause financial loss and reputational damage. Although the Issuer has 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 the Issuer will be unable to comply with its obligations as a company with securities admitted to the Official List or as a supervised firm regulated under the FSMA 2000.

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

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

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

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

The Issuer's ability to attract and retain customers and conduct business with its counterparties could be adversely affected if the Issuer's 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 the Issuer and its 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 the Issuer, which could adversely affect its business, financial condition and results of operations.

***The Issuer is 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 the Issuer, 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 the Issuer's results of operations and financial position. No assurance can be given that the Issuer 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 the Issuer's results of operations and financial position or its reputation. Primarily:

- certain aspects of the Issuer's business may be determined by the Bank of England, the Prudential Regulation Authority (the **PRA**), the FCA, H.M. Treasury, the Competition and Markets Authority (the **CMA**), the Financial Ombudsman Service (the **Ombudsman**) or the courts as not being conducted in accordance with applicable laws or regulations, or, in the case of the Ombudsman, 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 compensation to affected customers, all of which may require additional provisions to be recorded in

the Issuer's financial statements and could adversely impact future revenues from affected products; and

- the Issuer may be liable for damages to third parties harmed by the conduct of its business.

In addition, the Issuer faces both financial and reputational risk where legal or regulatory proceedings, or complaints before the Ombudsman, or other complaints are brought against the Issuer or members of its 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. The Issuer made a charge for customer redress of £127 million in the year ended 4 April 2016, with the increase primarily relating to PPI, as compared to a charge for customer redress of £59 million in the year ended 4 April 2015. Although the Issuer's PPI product sales ceased in 2007, the Issuer continues to see a number of PPI claims and there can be no assurance that its estimates for potential liability are correct, and its 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. As a result, the FCA announced on 27 May 2015 that it was considering whether additional rules or guidance on PPI complaints are required subsequent to the Plevin decision. On 2 October 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 hence PPI consumers would have until at least late Summer 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 the Issuer, 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 the Issuer, 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 2014. Consequently, the extent of claims the Issuer will take under the scheme remains uncertain.

In light of a review of compliance-oriented legislation being undertaken across the industry, the Issuer is undertaking a comprehensive revision of its own documentation and processes relating to consumer protection and sales practices. A number of areas which require further enquiry have been identified and while the Issuer's investigations are still at a relatively early stage, the Issuer has recognised the aforementioned charge in the year ended 4 April 2016 of £127 million (£59 million in the year ended 4 April 2015) in respect of potential costs in relation to matters which may require remediation. No assurance can be given that the Issuer 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 its results of operations and financial position or its reputation.

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

The Issuer conducts its business subject to ongoing regulation by the PRA and the FCA, which oversee the Issuer's prudential arrangements and the sale of residential mortgages, commercial lending, and general insurance products. The regulatory regime requires the Issuer to be in compliance across many aspects of activity, including the training, authorisation and supervision of personnel, systems, processes and documentation. If the Issuer fails to comply with any relevant regulations, there is a risk of an adverse impact on its business due to sanctions, fines or other action imposed by the regulatory authorities.

This is particularly the case in the current market environment, which 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 Nationwide's control and could materially adversely affect its 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 the Issuer, causing it to raise further capital, increase its expenses and/or otherwise adversely affect its 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. The Issuer does 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 the Issuer's 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. The Issuer 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 Nationwide's 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 Nationwide's operations, structure, costs and/or capital requirements. Accordingly, Nationwide 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 its operations, business, results, financial condition or prospects.

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

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

In Europe, the Bank Recovery and Resolution Directive (Directive 2014/59/EU) (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 1 January 2015.

Under the Banking Act, substantial powers have been granted to HM Treasury, the PRA, the FCA and the Bank of England as part of a special resolution regime (the **SRR**). These powers enable the authorities, among other things, to resolve a bank or building society in circumstances in which the authorities consider its failure has become highly likely and a threat is posed to the public interest. In respect of UK building societies, the relevant tools include (together, the **Stabilisation Options**) (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 an instrument or order were to be made under the Banking Act in respect of a relevant entity as described above (including the Issuer), such action may (among other things) affect the ability of such entity to satisfy its obligations under the Transaction Documents and/or result in the cancellation, modification or conversion of certain unsecured liabilities of such entity under the Transaction Documents (possibly preceded by demutualisation in the case of a building society such as the Issuer), including any unsecured portion of the liability in respect of the Covered Bonds at the relevant time, and/or modifications to the Terms and Conditions of the Covered Bonds and/or the Transaction Documents. In particular, modifications may be made pursuant to powers permitting (i) certain trust arrangements to be removed or modified, (ii) contractual arrangements between relevant entities and other parties to be removed, modified or created where considered necessary to enable a transferee in the context of a property or share transfer to operate the transferred business effectively and (iii) in connection with the modification of an unsecured liability through use of the bail-in tool (including any unsecured portion of the liability in respect of the Covered Bonds at the

relevant time), the reduction of the relevant liability (including to zero) and/or the discharge of a relevant entity from further performance of its obligations under a contract. In addition, subject to certain conditions, powers would apply to require a relevant instrument or order (and related events) to be disregarded in determining whether certain widely defined "default events" have occurred (which events may include trigger events included in the Transaction Documents in respect of the Issuer, including certain trigger events in respect of perfection of legal title to the Loans and certain Issuer Events of Default). As a result, the making of an instrument or order in respect of the Issuer, the Seller, the Servicer, the Account Bank, the Covered Bond Swap Provider, the Cash Manager, the Principal Paying Agent, the Agent Bank, the Exchange Agent, the Registrar, the GIC Provider, the Stand-by Account Bank or the Stand-by GIC Provider may affect the ability of the LLP to meet its obligations under the Covered Bond Guarantee and/or otherwise adversely affect the rights and interests of the Covered Bondholders

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

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

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

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

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

On 6 August 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 1 January 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 Covered Bondholders of their decision to exercise any resolution power. Therefore, Covered Bondholders may not be able to anticipate a potential exercise of any such powers nor the potential effect of any exercise of such powers on the Issuer or the Covered Bonds.

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

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

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

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

***The Issuer is subject to regulatory capital requirements which are subject to change and that could limit its operations.***

The Issuer is subject to capital requirements that could have an impact on its operations. Changes to the capital requirements under which the Issuer operates could hinder growth by prescribing more stringent requirements than those with which the Issuer currently complies. 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 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 1 January 2014, with particular elements being phased in over a period of time, to be fully effective by 2024.

The Issuer's 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 the Issuer fails, or is perceived to be likely to fail, to meet its minimum regulatory capital requirements, this may result in administrative actions or regulatory sanctions.

Effective management of the Issuer's capital is critical to its ability to operate and grow its business and to pursue its strategy. Any change that limits the Issuer's ability to effectively manage its 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 the Issuer's 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 1 January 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 29 July 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 1 January 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 the Issuer 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 the Issuer's 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 25 March 2015 secondary legislation was enacted writing the Financial Policy Committee (**FPC**) Leverage recommendations (published 31 October 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 7 December 2015, the PRA published the Policy Statement (**PS27/15**) and final rules, which came into force from 1 January 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 had announced a 0.5% countercyclical buffer (**CCyB**) on UK exposures for implementation in March 2017. The FPC had intended that the risk-based countercyclical buffer would be offset by the PRA buffer, but no offsets would apply to the leverage equivalent. The FPC had 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 Nationwide expects 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%. As a result of the EU Referendum, in July 2016 the FPC reduced the CCyB from 0.5% to 0%. The FPC expects to maintain a 0% CCyB rate until at least June 2017.

On 12 June 2014 the BRRD 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 3 July 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 3 November 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 1 January 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 11 December 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 Bank of England 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 Bank of England proposed that MREL requirements would be double minimum capital requirements plus buffers. The Issuer expects the Bank of England 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 a significant 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 significantly increase the overall level of capital requirements.

***The Issuer is required to pay levies under the Financial Services Compensation Scheme and is exposed to future increases of such levies, which might impact the Issuer's profits.***

The FSMA 2000 established the Financial Services Compensation Scheme (**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 "*The Issuer— Financial Services Compensation Scheme*". Based on the Issuer's share of protected deposits, the Issuer 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 the Issuer's 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 was 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, the Issuer also has a potential exposure to future levies resulting from the failure of other financial institutions and consequential claims which arise against the FSCS as a result of such failure. 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 Nationwide Group across the financial year ended 4 April 2014 and 4 April 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 Building Society 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 the Issuer. Any such increases in the Issuer's costs and liabilities related to the levy may have a material adverse effect on the Issuer's results of operations. The amount provided for in the Issuer's accounts to meet its obligations to the FSCS was £84 million as at 4 April 2016 (£126 million as at 4 April 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 1 September 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 Nationwide 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 3 July 2015. The revised DGSD requires EU Member States to ensure that by 3 July 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. HM Treasury 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 which include the introduction of temporary high balance deposit protection of up to £1 million (an increase from the previous deposit protection limit, which was £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 the Issuer may differ from those it has incurred historically, and such reforms could result in the Issuer incurring additional costs and liabilities, which may adversely affect its business, financial conditions and/or results of operations.

***Competition and structural reform requirements in the UK personal financial services markets may adversely affect the Issuer's operations***

Nationwide is currently the second largest residential mortgages and savings provider in the United Kingdom, with estimated market shares of 12.6% and 10.2% (internal calculation based on Bank of England data), respectively, at 4 April 2016. Our strategy is based on maintaining a savings market share of at least 10% and managing mortgage volumes to reflect this aspiration. Nationwide also aims to increase its share of personal current accounts to approximately 10% over the next 5 years.

Developments in the Issuer's industry and increased competition could have a material adverse effect on its operations. The Issuer operates in an increasingly competitive UK personal financial services market. The Issuer competes mainly with other providers of personal finance services, including banks, building societies and insurance companies.

The UK market for financial services and the mortgage market in particular have been reshaped by the recent financial crisis. The supply of credit is now more limited for those potential customers without a large deposit or good credit history as lenders have focused on credit quality. Competition may intensify in response to consumer demand, technological changes, the impact of consolidation by the Issuer's competitors, regulatory actions and other factors. If increased competition were to occur as a result of these or other factors, the Issuer's business, financial condition and results of operations could be materially adversely affected. In particular, the Financial Services (Banking Reform) Act 2013 (the **Banking Reform Act**) gives HM Treasury and the relevant regulators, primarily the PRA, powers to implement some of the recommendations made by the Independent Commission on Banking (the **ICB**) and, in particular, the power to implement the so-called ring fencing reforms. The ring fencing reforms aim to separate retail banking activities from the wholesale and investment banking activities carried on by large banking groups operating in the UK. Banks are not required to comply with all of the elements of the ring-fencing regime until 1 January 2019. Such provisions could reduce the distinctiveness of the building society model and

potentially reduce Nationwide's current competitive advantage as a building society. Much of the policy detail relating to the ring-fencing reforms will be set out in secondary legislation and regulatory rules - to date, only certain provisions of the Banking Reform Act have come into force and the other provisions of the Banking Reform Act will come into force on a day or days to be appointed in commencement orders. It should be noted that although the Government has decided to carve building societies out of the proposed ring-fencing legislation, section 7 of the Banking Reform Act gives the government powers to amend building societies legislation to apply ring-fencing to building societies should it deem it necessary.

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

**RISK FACTORS RELATING TO THE LLP**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

If a Servicer Event of Default occurs pursuant to the terms of the Servicing Agreement, then the LLP and/or the Security Trustee will be entitled to terminate the appointment of the Servicer and appoint a new servicer in its place. There can be no assurance that a substitute servicer with sufficient experience of administering mortgages of residential properties would be found who would be willing and able to service the Loans on the terms of the Servicing Agreement. In addition, as described below, any substitute servicer will be required to be authorised under the FSMA 2000. The ability of a substitute servicer to perform fully the required services would depend, among other things, on the information, software and records available at the time of the appointment. Any delay or inability to appoint a substitute servicer may affect the realisable value of the Portfolio or any part thereof, and/or the ability of the LLP to make payments under the Covered Bond Guarantee. However, if the Servicer ceases to be assigned a long-term unsecured, unguaranteed and unsubordinated debt obligation rating by S&P of at least BBB- or by Fitch of at least BBB- or a counterparty risk assessment by Moody's of at least Baa3(cr) it will use reasonable efforts to enter into a master servicing agreement with a third party.

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

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

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

If the Account Bank ceases to satisfy the Account Bank Required Ratings (i) the GIC Account would need to be transferred to another entity which does satisfy the relevant criteria or (ii) the Account Bank may continue to hold Deposit Non-Reserved Amounts and Swap Collateral cash amounts in the Collateralised GIC Account, provided that Nationwide posts collateral against such deposits. Any amounts that do not constitute Deposit Non-Reserved Amounts or Swap Collateral cash amounts must be deposited in a GIC Account with an entity that satisfies the Account Bank Required Ratings. In addition, if Nationwide as Account Bank ceases to satisfy such criteria, the LLP must establish a Standby GIC Account with another entity which does satisfy such criteria. Although any collateral posted against amounts on deposit in the Collateralised GIC Account is required to be in an amount greater than the amount on deposit, there is no guarantee that the value of such collateral when realised will be sufficient to cover losses on the Collateralised GIC Account. If at any time the Account Bank "Issuer Default Ratings" from Fitch are below "BBB-", then the Account Bank must transfer amounts standing to the credit of the GIC Account to another entity which satisfies the Account Bank Required Ratings and during such time, no monies shall be credited to the Collateralised GIC Account.

***Reliance on Swap Providers***

To provide a hedge against possible variances in the rates of interest payable on the Loans in the Portfolio (which may, for instance, include variable rates of interest, discounted rates of interest, fixed rates of interest or rates of interest which track a base rate) and LIBOR for three month or one month Sterling deposits, the LLP has entered into the Interest Rate Swap Agreement with the Interest Rate Swap Provider. In addition, to provide a hedge against interest rate and currency risks in respect of amounts received by the LLP under the Loans and the Interest Rate Swaps and amounts payable by the LLP on the outstanding Term Advances or (following service on the LLP of a Notice to Pay) under the Covered Bond Guarantee in respect of the Covered Bonds, the LLP has entered into a Covered Bond Swap Agreement with each Covered Bond Swap Provider.

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

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

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

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

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

With respect to the Covered Bond Swaps, the LLP will pay a monthly amount to each Covered Bond Swap Provider based on LIBOR for three month Sterling deposits. Each Covered Bond Swap Provider will not be obliged to make corresponding swap payments to the LLP under a Covered Bond Swap for up to 12 months until amounts are due and payable by the LLP under the Intercompany Loan Agreement (prior to the service of a Notice to Pay or LLP Acceleration Notice on the LLP) or are Due for Payment under the Covered Bond Guarantee (after the service of a Notice to Pay or LLP Acceleration Notice on the LLP). If a Covered Bond Swap Provider does not meet its payment obligations to the LLP under the relevant Covered Bond Swap and such Covered Bond Swap Provider does not make a termination payment that has become due from it to the LLP, the LLP may have a larger shortfall in funds with which to make payments under the Covered Bond Guarantee with respect to the Covered Bonds than if the Covered Bond Swap Provider's payment obligations coincided with LLP's payment obligations under the Covered Bond Swaps. Hence, the difference in timing between the obligations of the LLP and the relevant Covered Bond Swap Providers under the Covered Bond Swaps may affect the LLP's ability to make payments under the Covered Bond Guarantee with respect to the Covered Bonds.

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

***Change of counterparties***

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

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

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

***Limited description of the Portfolio***

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

- the Seller selling Loans and their Related Security (or New Loan Types and their Related Security) to the LLP;
- New Sellers acceding to the Transaction and selling Loans and their Related Security (or New Loan Types and their Related Security) to the LLP; and

- the Seller repurchasing Loans and their Related Security in accordance with the Mortgage Sale Agreement.

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

***Scottish and Northern Irish Loans***

It should be noted that Loans and their Related Security governed by Scots law and relating to Scottish properties have been included in the Portfolio and may also be sold to the LLP in the future. It is also intended to add Loans and their Related Security governed by Northern Irish law and relating to Northern Irish properties in the future. The consent of Covered Bondholders will not be obtained in relation to any changes required to the Transaction Documents in order to include Northern Irish loans in the Portfolio.

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

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

The law in England and Wales relating to the characterisation of fixed charges is unsettled. The fixed charges purported to be granted by the LLP may take effect under English law as floating charges only, if, for example, it is determined that the Security Trustee does not exert sufficient control over the Charged Property for the security to be said to constitute fixed charges. If the charges take effect as floating charges instead of fixed charges, then, as a matter of law, certain claims would have priority over the claims of the Security Trustee in respect of the floating charge assets. In particular, the expenses of any administration, and the claims of any preferential creditors, would rank ahead of the claims of the Security Trustee in this regard. The Enterprise Act 2002 abolished the preferential status of certain Crown debts (including the claims of the United Kingdom tax authorities). However, certain employee claims (in respect of contributions to pension schemes and wages) still have preferential status. In this regard, it should be noted that the LLP has agreed in the Transaction Documents not to have any employees.

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

***Liquidation expenses***

On 6 April 2008, a provision in the Insolvency Act 1986 came into force which effectively reversed by statute the House of Lords' decision in the case of Leyland Daf in 2004. Accordingly, it is now the case that, in general the costs and expenses of a liquidation (including certain tax charges) will be payable out of floating charge assets in priority to the claims of the floating charge-holder. In respect of certain litigation expenses of the liquidator only, this is subject to approval of the amount of such expenses by the floating charge-holder (or, in certain circumstances, the court) pursuant to provisions set out in the Insolvency Rules 1986.

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

*See also the investment consideration described above under "Expenses of insolvency officeholders".*

***Maintenance of Portfolio***

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

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

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

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

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

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

occurrence of an Issuer Event of Default, the Asset Monitor will be required to test the calculations performed by the Cash Manager in respect of the Amortisation Test. See further "*Summary of the Principal Documents – Asset Monitor Agreement*".

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Following a breach of the Pre-Maturity Test and/or the occurrence of an Issuer Event of Default, service on the Issuer of an Issuer Acceleration Notice and service on the LLP of a Notice to Pay (but in each case prior to the service of a LLP Acceleration Notice and/or the commencement of winding-up proceedings against the LLP and/or realisation of the Security), the LLP will be obliged to sell Selected Loans and their Related Security to third party purchasers, subject to a right of pre-emption enjoyed by the Seller pursuant to the terms of the Mortgage Sale Agreement (see "*Summary of the Principal Documents – LLP Deed – Method of*

*Sale of Selected Loans*"). In respect of any sale of Selected Loans and their Related Security to third parties, however, the LLP will not be permitted to give warranties or indemnities in respect of those Selected Loans and their Related Security (unless expressly permitted to do so by the Security Trustee). There is no assurance that the Seller would give any warranties or representations in respect of the Selected Loans and their Related Security. Any Representations or Warranties previously given by the Seller in respect of the Loans in the Portfolio may not have value for a third party purchaser if the Seller is then insolvent. Accordingly, there is a risk that the realisable value of the Selected Loans and their Related Security could be adversely affected by the lack of representations and warranties which in turn could adversely affect the ability of the LLP to meet its obligations under the Covered Bond Guarantee.

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

Borrowers may default on their obligations due under the Loans. Defaults may occur for a variety of reasons. The Loans are affected by credit, liquidity and interest rate risks. Various factors influence mortgage delinquency rates, prepayment rates, repossession frequency and the ultimate payment of interest and principal, such as changes in the national or international economic climate, regional economic or housing conditions, changes in tax laws, interest rates, inflation, the availability of financing, yields on alternative investments, political developments and government policies. Other factors in Borrowers' individual, personal or financial circumstances may affect the ability of Borrowers to repay the Loans. Loss of earnings, illness, divorce and other similar factors may lead to an increase in delinquencies by and bankruptcies of Borrowers, and could ultimately have an adverse impact on the ability of Borrowers to repay the Loans. In addition, the ability of a Borrower to sell a property given as security for a Loan at a price sufficient to repay the amounts outstanding under that Loan will depend upon a number of factors, including the availability of buyers for that property, the value of that property and property values in general at the time.

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

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

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

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

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

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

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

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

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

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

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

- first, if the Seller wrongly sells a Loan and its Related Security, which has already been sold to the LLP, to another person and that person acted in good faith and did not have notice of the interests of the LLP in the Loan and its Related Security, then such person might obtain good title to the Loan and its Related Security, free from the interests of the LLP. If this occurred then the LLP would not have good title to the affected Loan and its Related Security and it would not be entitled to payments by a Borrower in respect of that Loan. However, the risk of third party claims obtaining priority to the interests of the LLP would be likely to be limited to circumstances arising from a breach by the Seller of its contractual obligations or fraud, negligence or mistake on the part of the Seller or the LLP or their respective personnel or agents;

- second, the rights of the LLP may be subject to the rights of the Borrowers against the Seller, such as rights of set-off, which occur in relation to transactions or deposits made between Borrowers and the

Seller, and the rights of Borrowers to redeem their mortgages by repaying the Loans directly to the Seller; and

- third, unless the LLP has perfected the assignment or assignation (as appropriate) of the Loans (which it is only entitled to do in certain limited circumstances), the LLP would not be able to enforce any Borrower's obligations under a Loan or Mortgage itself but would have to join the Seller as a party to any legal proceedings.

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

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

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

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

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

- under a Flexible Loan, the Borrowers will be permitted (subject to certain conditions which may, in some circumstances, require notification and/or consent of the Seller) to make, among other things, further drawings on the Loan Account and/or to overpay or underpay interest and principal in a given month and/or to take a Payment Holiday (referred to as **Re-draws**) which will be funded solely by the Seller; and

- under a Flexible Advance, the Borrower will have the benefit of a loan secured on the same property that secures the Borrower's existing Loan. A Flexible Advance made prior to 31 October 2004 which forms part of a Loan which was entered into before 1 September 2002 is secured by a separate mortgage. Other Flexible Advances are secured on the same mortgage as the Loan to which they relate. Flexible Advances permit the Borrower to draw additional amounts in aggregate up to the fixed credit limit under the terms of the Mortgage Conditions at the inception of such Flexible Advance. Such draws under a Flexible Advance are collectively referred to as **Further Draws**. Such Further Draws will be funded by the Seller.

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

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

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

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

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

Further, there may be circumstances in which:

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

- a Borrower may seek to argue that Flexible Advances and their Related Security may be unenforceable or unenforceable without a court order because of non-compliance with the CCA, although such an argument is unlikely to succeed in the context of a Flexible Advance that can be demonstrated to be a regulated mortgage contract under the FSMA 2000 and an exempt agreement for the purpose of the CCA;

- certain Re-draws or Further Draws may rank behind security created by a Borrower after the date upon which the Borrower entered into its Mortgage with the Seller; or

- a Borrower may seek to argue that a Loan, being a regulated mortgage contract, has been provided to it by the Seller in a manner in breach of a relevant FCA rule, thus enabling the Borrower to make a claim for damages under the FSMA 2000 in respect of such breach (see "*Regulatory changes by the FCA, the CMA and any other regulatory authorities*" below).

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

***Limited recourse to the Seller***

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

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

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

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

***Regulatory changes by the Financial Conduct Authority, the CMA and any other regulatory authorities***

***FSMA 2000***

In the UK, the regulation of residential mortgage business under the FSMA 2000 came into force on 31 October 2004, (the date known as **N(M)**).

Since N(M), the following activities: (a) entering into; (b) administering; (c) arranging in respect of; and (d) advising in respect of regulated mortgage contracts as well as (e) agreeing to do any of those activities, have been (subject to exemptions) regulated activities under the FSMA 2000.

A credit agreement entered into after 31 October 2004 and before 21 March 2016, is a **regulated mortgage contract** under the FSMA 2000 if at the time it was entered into: (i) the credit agreement was one under which the lender provided credit to an individual or trustee; (ii) the contract provides for the repayment obligation of the borrower to be secured by a first ranking legal mortgage (or, in Scotland, a first ranking standard security) on land (other than timeshare accommodation) in the United Kingdom; (iii) at least 40 per cent. of that land was used, or was intended to be used, as or in connection with a dwelling by the borrower or (in the case of credit provided to trustees) by an individual who is a beneficiary of the trust, or by a "related person" (broadly, the person's spouse, near relative or a person with whom the borrower has a relationship which is characteristic of a spouse) and (iv) the credit agreement is not a "regulated home purchase plan" as defined in the Financial Services and Market Act 2000 (Regulated Activities) Order 2001 (**Regulated Activities Order**). For credit agreements entered into prior to 31 October 2004, those may be **regulated mortgage contracts** if they were varied after 31 October 2004 and the variation was sufficiently material to constitute a new agreement. The **regulated mortgage contract** definition was recently expanded with the implementation of the Directive on credit agreements relating to residential property (the **Mortgage Credit Directive**). From 21 March 2016, the definition was extended to cover second and later ranking secured charges and property anywhere in the EEA. For the purpose of considering whether an entity carries on a regulated mortgage activity, credit agreements entered into before 21 March 2016 are only treated as regulated mortgage contracts on and after that date if they were regulated mortgage contracts when they were entered into or if they fall within the definition of consumer credit back book mortgage contract - a definition

that was introduced by the UK government in implementing the Mortgage Credit Directive (see "*Mortgage Credit Directive* " below).

The main effects of the introduction of the FSMA 2000 regime for regulated mortgage contracts have been that, on or after N(M), unless an exclusion or exemption applies: (a) each entity carrying on a regulated mortgage activity by way of business in the United Kingdom has to hold authorisation and permission under the FSMA 2000 to carry on that activity; and (b) each financial promotion in respect of an agreement relating to qualifying credit and which originates in the United Kingdom or is capable of having an effect in the United Kingdom has to be issued or approved by a person holding authorisation under the FSMA 2000. It should be noted that the definition of "qualifying credit" is broader than that of "regulated mortgage contract" and may include loans secured on land that are regulated by the CCA or treated as such or unregulated and under which the lender is a person (such as the Seller) who carries on the regulated activity of entering into or administering regulated mortgage contracts (although this in turn is impacted following the implementation of the Mortgage Credict Directive from 21 March 2016 and its definition of "Consumer Credit Back Book Mortgage Contract" – see "Mortgage Credit Directive" below). If requirements as to authorisation and permission of lenders and brokers or as to the issue and approval of financial promotions are not complied with, the regulated mortgage contract (or, in the case of failure to comply with the financial promotions requirements, the relevant mortgage loan that is "qualifying credit") will be unenforceable against the borrower except with the approval of the court. An unauthorised person who administers a regulated mortgage contract may commit a criminal offence, but this will not render the contract unenforceable against the borrower.

There is a risk that any credit agreement intended to be a regulated mortgage contract under the FSMA 2000 might instead be wholly or partly regulated by the CCA or treated as such, or unregulated, and any credit agreement intended to be regulated by the CCA or treated as such, or unregulated, might instead be a regulated mortgage contract under the FSMA 2000, because of technical rules on: (a) determining whether any credit arises or whether any applicable financial limit of the CCA is exceeded; (b) determining whether the credit agreement or any part of it falls within the definition of "regulated mortgage contract"; (c) changes to credit agreements and (d) determining whether the credit agreement is an exempt agreement (for example, certain types of credit agreement to finance the purchase of, or alteration to, homes or business premises, or regulated mortgage contracts under the FSMA 2000) or certain buy-to-let credit agreements (although this in turn is impacted following the implementation of the Mortgage Credit Directive from 21 March 2016 and its definition of "Consumer Credit Back Book Mortgage Contract" – see "Mortgage Credit Directive" below).

The Seller is required to hold, and holds, authorisation and permission to enter into and to administer and, where applicable, to advise in respect of regulated mortgage contracts. Brokers are in certain circumstances required to hold authorisation and permission to arrange and, where applicable, to advise in respect of regulated mortgage contracts.

The LLP is not and does not propose to be an authorised person under the FSMA 2000 with respect to regulated mortgage contracts and related activities. The LLP does not require authorisation in order to acquire legal or beneficial title to a regulated mortgage contract. The LLP does not carry on the regulated activity of administering in relation to regulated mortgage contracts by having them administered pursuant to an administration agreement by an entity having the required authorisation and permission under the FSMA 2000. If such administration agreement terminates, however, the LLP will have a period of not more than one month in which to arrange for mortgage administration to be carried out by a replacement servicer having the required authorisation and permission under the FSMA 2000. In addition, on and after N(M) no variation has been or will be made to the Loans and no Further Advance or Product Switch has been or will be made in relation to a Loan, where it would result in the LLP arranging or advising in respect of, administering or entering into a regulated mortgage contract or agreeing to carry on any of these activities, if the LLP would be required to be authorised under the FSMA 2000 to do so.

The Mortgages and Home Finance: Conduct of Business sourcebook (**MCOB**), which sets out the rules under the FSMA 2000 for regulated mortgage activities, came into force on 31 October 2004. These rules

cover, among other things, certain pre-origination matters such as financial promotion and pre-application illustrations, pre-contract and start-of-contract and post-contract disclosure, contract changes, charges and arrears and repossessions. The rules for prudential and authorisation requirements for mortgage firms, and for extending the appointed representatives regime to mortgages, came into force on 31 October 2004.

A borrower who is a private person may be entitled to claim damages for loss suffered as a result of any contravention by an authorised person of a rule under the FSMA 2000, and may set off the amount of the claim against the amount owing by the borrower under the loan or any other loan that the borrower has taken with that authorised person (or exercise analogous rights in Scotland or Northern Ireland). Any such set-off may adversely affect the realisable value of the Loans in the Portfolio and accordingly the ability of the LLP to meet its obligations under the Covered Bond Guarantee.

With the intention of avoiding dual regulation, it was originally intended that regulated mortgage contracts under the FSMA 2000 were not regulated by the CCA (although this in turn is impacted following the implementation of the Mortgage Credit Directive from 21 March 2016 and its definition of "Consumer Credit Back Book Mortgage Contract" (see "Mortgage Credit Directive" below). Certain regulations made in 2005 and 2008 under the FSMA 2000 were designed to clarify the position in this regard. This exemption only affects credit agreements made on or after N(M) and credit agreements made before N(M) but subsequently changed such that a new contract was entered into on or after N(M) and constitutes a separate regulated mortgage contract. A court order under section 126 of the CCA is, however, necessary to enforce a land mortgage (including, in Scotland, a standard security) whether it secures a regulated mortgage contract or a regulated credit agreement.

Prior to N(M), in the UK, self-regulation of mortgage business existed under the Mortgage Code (the **CML Code**) issued by the Council of Mortgage Lenders (the **CML**). The CML Code set out minimum standards of good mortgage business practice, from marketing to lending procedures and dealing with borrowers experiencing financial difficulties. Since 30 April 1998 lender-subscribers to the CML Code could not accept mortgage business introduced by intermediaries who were not registered with (before 1 November 2000) the Mortgage Code Register of Intermediaries or (on and after 1 November 2000 until 31 October 2004) the Mortgage Code Compliance Board. Complaints relating to breach of the CML Code were dealt with by the relevant scheme, such as the Banking Ombudsman Scheme or the Mortgage Code Arbitration Scheme. The CML Code ceased to have effect on 31 October 2004 when the FSA assumed responsibility for the regulation of regulated mortgage contracts.

In June 2010, the FSA made changes to MCOB which effectively converted previous guidance on the policies and procedures to be applied by authorised firms (such as Nationwide) with respect to forbearance in the context of regulated mortgage contracts into formal mandatory rules. Under these rules, a firm is restricted from repossessing a property unless all other reasonable attempts to resolve the position have failed and, in complying with such restriction, a firm is required to consider whether, given the borrower's circumstances, it is appropriate to take certain actions. Such actions refer to (amongst other things) the extension of the term of the mortgage, product type changes and deferral of interest payments. While the FCA has indicated, and the FCA appears to follow the same approach, that it does not expect each forbearance option referred to in the rules to be explored at every stage of interaction with the borrower, it is clear that the new rules impose mandatory obligations on firms without regard to any relevant contractual obligations or restrictions. As a result, these rules may operate in certain circumstances to require the Servicer to take certain forbearance-related actions which do not comply with the Transaction Documents (and, in particular, the servicing arrangements contemplated by such documents) in respect of one or more Loans and their Related Security. No assurance can be made that any such actions will not reduce the amounts available to meet the payments due in respect of the Covered Bonds, although the impact of this will depend on the number of Loans which involve a Borrower who experiences payment difficulties.

***UK proposals for changes to mortgage regulation and to the regulatory framework***

In January 2011, HM Treasury announced proposals to enhance consumer protection in the mortgage market. Regulations have been drafted to provide for consumer protection when a mortgage book is sold by a regulated mortgage lender to an unregulated entity. In this regard, it is proposed that the definition of the regulated activity of administering a regulated mortgage contract will be expanded so that any entity which exercises specified rights in relation to regulated mortgage contracts, such as changing interest rates or taking action to repossess a property against a borrower, will be required to be authorised and regulated under the FSMA 2000.

In December 2011, the FSA published a consultation paper that consolidates proposals arising out of its wide-ranging mortgage market review, which was launched in October 2009 to consider strengthening rules and guidance on, *inter alia*, affordability assessments, product regulation, arrears charges and responsible lending. The FSA's aim was to ensure the continued provision of mortgage credit for the majority of borrowers who can afford the financial commitment of a mortgage, while preventing a re-emergence of poor lending practices as the supply of mortgage credit in the market recovers. In October 2012, the FSA published a feedback statement and final rules that generally came into force on 26 April 2014. These rules require (among other things) an assessment of affordability in accordance with detailed requirements, with transitional arrangements where the borrower does not take on additional borrowing except for essential repairs or maintenance work. These rules permit interest-only loans only where there is a clearly understood and credible strategy for repaying the capital. The FCA started to track firms' progress towards implementation of the mortgage market review from the second quarter of 2013 and: (a) published a report following a thematic review concerning the quality and suitability of mortgage advice provided by firms; and (b) began a further thematic review on responsible lending in April 2015. This thematic review was published in May 2016 and summarises the key findings of how firms are applying the responsible lending rules that were introduced in April 2014 following the mortgage market review. The scope of the review is restricted to residential first charge lending for new and existing borrowers. This is in addition to regulatory reforms being made as a result of the implementation of the Mortgage Credit Directive from 21 March 2016 (see "Mortgage Credit Directive " below).

Under the Financial Services Act 2012 the FCA may make rules under which, and from dates to be specified: (a) carrying on certain credit-related regulated activities (including in relation to servicing) otherwise than in accordance with permission from the FCA will render the credit agreement unenforceable without FCA approval; and (b) the FCA will have power to render unenforceable contracts made in contravention of its rules on cost and duration of credit agreements or in contravention of its product intervention rules. This Act also provides for formalised cooperation to exist between the FCA and the Ombudsman (as described above), particularly where issues identified potentially have wider implications, with a view to the FCA requiring affected firms to operate consumer redress schemes.

Any further changes in MCOB arising from the FSA's mortgage market review, or to MCOB or the FSMA 2000 arising from (i) HM Treasury's proposals to change mortgage regulation or recent changes in the regulatory framework, including the Mortgage Credit Directive or (ii) any future review carried out by the FCA, may adversely affect the Loans, the Seller and/or the Servicer and their respective businesses and operations.

***Consumer Credit Act 1974***

Under the Financial Services Act 2012, from 1 April 2014 regulation of consumer credit business (including second and subsequent charge mortgages) under the CCA was transferred from the OFT to the FCA and the OFT has been abolished.

A credit agreement is regulated by the CCA where: (a) the borrower is or includes an "individual" as defined in the CCA; (b) if the credit agreement was made before the financial limit was removed (as described below), the amount of "credit" as defined in the CCA does not exceed the financial limit of £25,000 for

credit agreements made on or between 1 May 1998 and 5 April 2008, or lower amounts for credit agreements made before 1 May 1998; and (c) the credit agreement is not an exempt agreement under the CCA (for example, it is intended that a regulated mortgage contract under the FSMA 2000 (as defined above) is an exempt agreement under the CCA).

Any credit agreement that is wholly or partly regulated by the CCA or treated as such has to comply with requirements under the FSMA 2000 as to authorisation of lenders and brokers, the Consumer Credit Sourcebook (CONC) of the FCA Handbook as to conduct of business requirements for lenders and brokers, and the CCA as to the documentation and procedures of credit agreements, and (in so far as applicable) pre-contract disclosure and certain notices concerning arrears and default. During a transitional phase from 1 April 2014 to 31 March 2016, a firm holding consumer credit interim permissions have to reapply for authorisation from the FCA under the FSMA 2000 in relation to their consumer credit activities.

If it does not comply with those requirements, then to the extent that the credit agreement is regulated by the CCA or treated as such, it is unenforceable against the borrower: (a) without an order of the FCA or the court, if the lender or any broker did not hold the required OFT licence or FCA permission (as applicable) at the relevant time; (b) totally, if the credit agreement was made before 6 April 2007 and if the form to be signed by the borrower was not signed by the borrower personally or omits or mis-states a "prescribed term"; or (c) without a court order in other cases and, in exercising its discretion whether to make the order, the court would take into account any prejudice suffered by the borrower and any culpability of the lender.

Recharacterisation of a credit agreement from a regulated mortgage contract or otherwise exempt agreement to a regulated credit agreement poses the following risks:

- a court order under Section 126 of the CCA is necessary to enforce a land mortgage (including, in Scotland a standard security) which is a regulated credit agreement (although Section 126 of the CCA may already apply if the credit agreement is a regulated mortgage contract or an exempt buy-to-let mortgage contract).

- under Section 75 of the CCA, in certain circumstances the lender is liable to the borrower in relation to misrepresentation and breach of contract by a supplier in a transaction financed by a credit agreement that is wholly or partly regulated by the CCA or treated as such, where the credit agreement is or is treated as entered into under pre-existing arrangements, or in contemplation of future arrangements, between the lender and the supplier. In addition, a borrower who is a private person may be entitled to claim damages for loss suffered as a result of any contravention by an authorised person of a rule under the FSMA 2000. From 1 April 2014 such rules include rules in the FCAs Consumer Credit Sourcebook (**CONC**). The lender may also be entitled to a statutory indemnity from the supplier against such liability, subject to any agreement between the lender and the supplier. The Borrower may set off the amount of the claim against the amount owing by the Borrower under the Loan or under any other Loan which the Borrower has with the Seller (or exercise analogous rights in Scotland or Northern Ireland). Any such claim or set-off may adversely affect the realisable value of the Loans in the Portfolio and accordingly the ability of the LLP to meet its obligations under the Covered Bond Guarantee

***Consumer Credit Act 2006***

The Consumer Credit Act 2006 (the **CCA 2006**), which amends and updates the CCA, was enacted on 30 March 2006 and was fully implemented by 31 October 2008. The CCA 2006 updated and amended the CCA by replacing the "extortionate credit" regime with an "unfair relationship" test. The "unfair relationship" test applies to all existing and new credit agreements, except regulated mortgage contracts under the FSMA 2000. If the court makes a determination that the relationship between the lender and the borrower is unfair, then it may make an order, among other things, requiring the originator, or any assignee (such as the LLP) to repay amounts received from the borrower. In applying the unfair relationship test, the courts are able to consider a wider range of circumstances surrounding the transaction, including the

creditor's conduct before and after making the agreement. There is no statutory definition of the word "unfair", as the intention is for the test to be flexible and subject to judicial discretion and it is therefore difficult to predict whether a court would find a relationship "unfair". However the word "unfair" is not an unfamiliar term in UK legislation due to the Unfair Contract Terms Act 1977, the Unfair Terms in Consumer Contracts Regulations 1994 and the Unfair Terms in Consumer Contracts Regulations 1999. The courts may, but are not obliged to, look solely to the CCA 2006 for guidance. The principle of "treating customers fairly" under the FSMA 2000, and guidance published by the FSA (and, in future, as of 1 April 2013, the FCA) on that principle and former guidance by the OFT on the unfair relationship test may also be relevant. Once the borrower alleges that an unfair relationship exists, then the burden of proof is on the creditor to prove the contrary. Recent cases concerning the scope of the unfair relationship test have generally adopted an interpretation which is favourable to borrowers. In particular, a Supreme Court judgment from November 2014 clarified that compliance by a lender or intermediary with the relevant regulatory framework does not preclude a finding of unfairness.

The financial limit of £25,000 for CCA regulation is removed for credit agreements made on or after 6 April 2008 and before 21 March 2016, except for certain changes to credit agreements, and except for buy-to-let loans made before 31 October 2008 although regulation of buy-to-let mortgage loans recently underwent change (see risk factor "*Mortgage Credit Directive*" below). Buy-to-let loans made on or after 31 October 2008 are, irrespective of amount, exempt agreements for CCA purposes. Regulations define buy-to-let loans for these purposes as being credit agreements secured on land where less than 40 per cent. of the floor area of the secured property is used, or is intended to be used, as or in connection with a dwelling by the borrower or by a connected person.

To the extent that the credit agreement is regulated by the CCA or treated as such, it is unenforceable for any period when the lender fails to comply with requirements as to default notices. From 1 October 2008, (a) the credit agreement is also unenforceable for any period when the lender fails to comply with further requirements as to annual statements and arrears notices, (b) the borrower is not liable to pay interest or, in certain cases, default fees for any period in which the lender fails to comply with further requirements as to post-contract disclosure, and (c) interest upon default fees is restricted to nil until the 29th day after the day on which a prescribed notice is given and then to simple interest. (i.e. interest may only be calculated on the principal amount of the default fee and not compounded). Early repayment charges are restricted by a formula under the CCA, which applies to the extent that the credit agreement is regulated by the CCA or treated as such. A more restrictive formula applies generally to all such credit agreements made on or after 11 June 2010.

The changes to the CCA, made by the CCA 2006, may themselves adversely affect the ability of the LLP to meet its obligations under the Covered Bond Guarantee.

The Seller has interpreted certain technical rules under the CCA in a way common with many other lenders in the mortgage market. If such interpretation were held to be incorrect by a court or the Ombudsman, then a Loan, to the extent that it is regulated by the CCA or treated as such, would be unenforceable as described above. If such interpretation were challenged by a significant number of Borrowers, then this could lead to significant disruption and shortfall in the income of the LLP. Court decisions have been made on technical rules under the CCA against certain mortgage lenders, but such decisions are very few and are generally county court decisions which are not binding on other courts.

The Seller has given or, as applicable, will give warranties to the LLP and the Security Trustee in the Mortgage Sale Agreement that, among other things, each Loan and its Related Security is enforceable (subject to certain exceptions). If a Loan or its Related Security does not comply with these warranties, and if the default cannot be remedied, then the Seller will be required to repurchase or procure the repurchase of such Loan and its Related Security from the LLP.

***Distance Marketing of Financial Services***

In the UK, the Financial Services (Distance Marketing) Regulations 2004 apply, *inter alia*, to credit agreements entered into on or after 31 October 2004 by means of distance communication (i.e. without any substantive simultaneous presence of the originator and the borrower). A regulated mortgage contract under the FSMA 2000, if originated by a UK lender from an establishment in the UK, is not cancellable under these regulations, but will be subject to related pre-contract disclosure requirements in MCOB. Other credit agreements secured by a legal mortgage or standard security on land are cancellable under these regulations if the borrower does not receive 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 fourteenth day after the day on which (a) the cancellable agreement is made, where all the prescribed information has been received or, (b) if later, the borrower receives the last of the prescribed information.

Compliance with the regulations may be secured by way of injunction (interdict in Scotland), granted on such terms as the court thinks fit to ensure such compliance, and certain breaches of the regulations may render the supplier or intermediaries (and their respective relevant officers) liable to a fine; failure to comply with the MCOB rules could result in, amongst other things, disciplinary action by the FCA and possible claims under section 138 D of the FSMA 2000 for breach of FCA rules.

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 lender to the borrower under or in relation to the cancelled agreement, within 30 days beginning with the day of the borrower sending notice of cancellation or, if later, the lender 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 provided in relation to the contract is treated as never having had effect for the cancelled agreement. If a significant number of Loans in the Portfolio are characterised as being cancellable under these regulations, then there could be an adverse effect on the LLP's ability to make payments on the Covered Bond Guarantee.

***Financial Ombudsman Service***

Under the FSMA 2000, the Ombudsman is required to make decisions on, *inter alia*, complaints relating to activities and transactions under its jurisdiction, including the Loans, on the basis of what, in the Ombudsman's opinion, would be fair and reasonable in all the circumstances of the case, taking into account, *inter alia*, law and guidance. By transitional provisions, the Ombudsman is also required to deal with certain complaints relating to breach of the CML Code. Complaints brought before the Ombudsman for consideration must be decided on a case-by-case basis, with reference to the particular facts of any individual case. Each case would first be adjudicated by an adjudicator. Either party to the case may appeal against the adjudication. In the event of an appeal, the case proceeds to a final decision by the Ombudsman.

The Ombudsman is required to make decisions on the basis of, among other things, the principles of fairness, and may order a money award to a Borrower, which may adversely affect the value at which the Loans in the Portfolio could be realised and accordingly the ability of the LLP to meet its obligations under the Covered Bond Guarantee.

***Mortgage Credit Directive***

On 31 March 2011, the European Commission published a proposal for a directive on credit agreements relating to residential immovable property for consumers, also known as the **Mortgage Credit Directive**. The Council of the European Union adopted the Mortgage Credit Directive on 28 January 2014 (Directive 2014/17/EU) 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 Member States were required to implement the Mortgage Credit Directive into national law by 21 March 2016. The UK government achieved this through

the Mortgage Credit Directive Order 2015 which was made on 25 March 2015 and has applied with effect from 21 March 2016.

The Mortgage Credit Directive aims to create an EU-wide mortgage credit market with a high level of consumer protection and it 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; (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) (the **Consumer Credit Directive**); and (c) unsecured credit agreements the purpose of which is to renovate residential immovable property involving a total amount of credit above €75,000. See the risk factor entitled "*Regulatory changes by the Financial Conduct Authority, the Competition and Markets Authority and any other regulatory authorities*" for further detail on how the UK government's implementation of the Mortgage Credit Directive has expanded the definition of **regulated mortgage contract** and with it expanded the scope of the UK regulatory regime for mortgages. The Mortgage Credit Directive has also expanded mortgage regulation to apply to some buy-to-let mortgages (described in more detail below).

The Mortgage Credit 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 Credit Directive also imposes prudential and supervisory requirements for credit intermediaries and non-bank lenders.

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 Credit Directive in respect of buy-to-let mortgages. The UK government has established in legislation a framework for 'consumer buy-to-let' mortgages (**CBTL**). In parallel, the FCA consulted on the implementation of this new framework making its Mortgage Credit Directive Instrument 2015, also on 25 March 2015. The legislation came into force on 21 March 2016, creating a new distinction between buy-to-let activity involving consumers where firms engaged in such activity are required to register with the FCA as CBTL firms and consumers acting by way of business where firms remain exempt from regulation. HM Treasury has stated that it would expect CBTL activity to represent a small proportion of total buy-to-let transactions.

Although the Mortgage Credit Directive generally only applies to credit agreements entered into on or after 21 March 2016, as discussed above, the UK's implementation of the Mortgage Credit Directive will also operate retrospectively to regulate certain credit agreements secured on land entered into on or before 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 repossessions (MCOB 13). General conduct of business standards will also apply (MCOB 2). This process is subject to detailed transitional provisions that are intended to retain certain customer protections in CONC and the CCA that are not contained within MCOB.

That said, it is still too early to tell what effect the implementation of the Mortgage Credit Directive into UK law will have on the Seller, the LLP, the Issuer and/or the Servicer and their respective businesses and operations.

***Unfair Terms in Consumer Contracts Regulations 1994 and 1999 and the Consumer Rights Act 2015***

In the UK, the Unfair Terms in Consumer Contracts Regulations 1999 as amended (the **1999 Regulations**), 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 1 July 1995 and before 1 October 2015 and affect all the Loans originated during this period. The Consumer Rights Act 2015 (the

**CRA**) amended the UTCCR unfair contract terms regime by partly repealing the UTCCR and applies to all Loans originated on or after 1 October 2015. The UTCCR continues to apply to contracts which were entered into before 1 October 2015.

The substantive amendments introduced by the CRA primarily concern the scope of the unfair contract terms protections, rather than their substance, and also codify certain case law developments concerning unfair contract terms. One significant amendment introduced by the CRA is an express requirement on the court to consider the fairness of a consumer contract, where it has sufficient legal and factual information to do so, even where this is not in issue between the parties in that particular case.

Under the United Kingdom unfair contract terms regime, a consumer (which would include a Borrower under all or almost all Loans) may challenge a standard term in an agreement on the basis that it is "unfair" 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 CMA and any concurrent regulator within the UTCCR (such as the FCA) may seek to prevent a business from relying on unfair terms. The lead enforcement body for the UTCCR was the OFT before 1 April 2014, and has been the CMA from 1 April 2014. The FSA was a "qualifying body" in relation to regulated mortgage contracts and mortgage loans originated by lenders authorised under the FSMA 2000 until it was replaced by the FCA from 1 April 2013. Since 1 April 2014, the lead enforcement body, the CMA, has been responsible for enforcing the UTCCR and/ or the CRA, as applicable, and does so concurrently with the FCA.

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 Seller is permitted to do) is found to be unfair, the borrower will not be liable to pay interest at the increased rate or, to the extent that the borrower has paid it, will be able, as against the lender, or any assignee such as the LLP, to claim repayment of the extra interest amounts paid or to set off the amount of the claim against the amount owing by the borrower under the loan or any other loan that the borrower has taken with the lender (or exercise analogous rights in Scotland or Northern Ireland). Any such non-recovery, claim or set-off may adversely affect the realisable value of the Loans in the Portfolio and accordingly the ability of the LLP to meet its obligations under the Covered Bond Guarantee.

In February 2000, the OFT issued a guidance note on what it considered to be fair terms and unfair terms for interest variation in mortgage contracts. Where the interest variation term does not provide for precise and immediate tracking of an external rate outside the lender's control, and if the borrower is locked in, for example by an early repayment charge that is considered to be a penalty, the term is likely to be regarded by the OFT as unfair under the UTCCR unless the lender (i) notifies the affected borrower in writing at least 30 days before the rate change and (ii) permits the affected borrower to repay the whole loan during the next three months after the rate change, without paying the early repayment charge. The Seller has reviewed the guidance note and has concluded that its compliance with it will have no material adverse effect on the Loans or its business. The guidance note has been withdrawn from the OFT website but may remain in effect as the CMA's view and a factor that the FCA and the CMA may take into account.

In May 2005, the FSA issued a statement of good practice on fairness of terms in consumer contracts, which is relevant to firms authorised and regulated under the FSMA 2000 in relation to products and services within the regulatory scope of the FSMA 2000. This statement provides that, for locked-in borrowers, (i.e. where the borrower is required to give advance notice or to pay a cost or to give up a benefit in order to withdraw from the contract) a firm may consider drafting the contract to permit a change in the contract to be made only where any lock-in clause is not exercised. In the context of the OFT's investigation into credit

card default fees, the OFT on 5 April 2006 issued a statement of its view of the principles that credit card issuers should follow in setting default fees, and that the principles are likely to apply to analogous default fees in other contracts such as mortgages. The principles are in essence that terms imposing default fees should not have the object of raising more in revenue than is reasonably expected to be necessary to recover certain limited administrative costs incurred as a result of the borrower's default.

In January 2007, the FSA issued a statement of good practice on mortgage exit administration fees. This statement provides that the lender should ensure that the fee represents in fact the costs of the administration services that the lender provides when a borrower exits the mortgage. The FSA issued a follow-up communication in November 2007 emphasising that this statement should not be interpreted narrowly and, where appropriate, firms should consider applying its principles to other charges. MCOB requires rules, for regulated mortgage contracts require that: (a) arrears charges represent a reasonable estimate of the cost of the additional administration required as a result of the borrower being in arrears, and (b) from 25 June 2010, the borrower's payments are allocated first towards paying off the balance of any payment shortfall, excluding any interest or charges on that balance.

In October 2010, the FSA issued a statement that, in its view, early repayment charges are likely to amount to the price paid by the borrower in exchange for services provided and may not be reviewable for fairness under the UTCCR (provided that they are written in plain and intelligible language and are drawn adequately to the consumer's attention). In January 2012, the FSA published a further statement intended to raise awareness of the issues that it commonly identifies under the UTCCR.

The May 2005, January 2007 and January 2012 guidance (the **Previous Guidance**) was removed from the FCA's website in March 2016 because it no longer reflected the FCA's current view on unfair contract terms. In July 2015, the CMA issued a guidance note on unfair contract terms in the CRA, which applies to any contracts entered into on or after 1 October 2015. However, the July 2015 guidance makes it clear that the CRA generally carries forward rather than changes the substance of the protections provided to consumers under earlier legislation and the Previous Guidance. As such, even with changes in regulatory structure in the United Kingdom that came into effect on 1 April 2013, in respect of any Loans originated before 1 October 2015, the Previous Guidance remains the most specific guidance on this topic. This is likely to continue to be the case as the FCA has confirmed that it does not intend to issue further guidance on unfair contract terms.

MCOB rules for regulated mortgage contracts require that: (a) arrears charges represent a reasonable estimate of the cost of the additional administration required as a result of the borrower being in arrears, and (b) from 25 June 2010, the borrower's payments are allocated first towards paying off the balance of any payment shortfall, excluding any interest or charges on that balance. In October 2010, the FSA issued a statement that, in its view, early repayment charges are likely to amount to the price paid by the borrower in exchange for services provided and may not be reviewable for fairness under the UTCCR provided that they are written in plain and intelligible language and are adequately drawn to the borrower's attention. In January 2012, the FSA issued a further statement intended to raise awareness of issues that it commonly identifies under the UTCCR.

The CRA, which came into force from an unfair contract terms perspective on 1 October 2015, essentially consolidates the previous unfair contract terms regime without making significant changes to the regime in substance. CRA changes to the regime provide that, among other things, no assessment of fairness shall be made of a term that specifies the main subject matter of the contract, or of a price term, provided that the term in question is transparent and prominent and that, in proceedings brought by 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.

Whilst the CMA and FCA have powers to enforce the UTCCR and the CRA, it would be for a court to determine their proper interpretation. The extremely broad and general wording of the UTCCR and the CRA makes any assessment of the fairness of terms largely subjective and makes it difficult to predict whether or

not a term would be held by a court to be unfair. It is therefore possible that any Loans which have been made or may be made to Borrowers covered by the UTCCR and the CRA may contain unfair terms which may result in the possible unenforceability of the terms of such Loans.

The guidance issued by the FSA and the OFT has changed over time and it is possible that it may change in the future by guidance issued by the FCA and the CMA. No assurance can be given that any such changes in guidance on the 1999 Regulations and CRA or reform of the 1999 Regulations and the CRA, will not have a material adverse effect on the Issuer, the LLP, the Servicer, the Security Trustee and their respective businesses and operations.

This may adversely affect the ability of the LLP to dispose of the Portfolio, or any part thereof, in a timely manner or the realisable value of the Portfolio, or any part thereof, and accordingly affect the ability of the LLP to meet its obligations under the Covered Bond Guarantee.

***Unfair Commercial Practices Directive 2005***

In May 2005, the European Parliament and the Council adopted a directive on unfair business-to-consumer commercial practices (Directive 2005/29/EC, the **Unfair Practices Directive**). Generally, this directive applies full harmonisation, which means that Member States may not impose more stringent provisions in the fields to which full harmonisation applies. By way of exception, this 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 directive. This directive is intended to protect only collective interests of consumers, and so is not intended to give any claim, defence or right of set-off to an individual consumer.

The Unfair Practices Directive is implemented in the United Kingdom by the Consumer Protection from Unfair Trading Regulations 2008 (the **CPUTR**), which came into force on 26 May 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 the possible liabilities for misrepresentation or breach of contract in relation to the underlying credit agreement may result in irrecoverable losses on amounts to which such agreements apply. When it first came into force, the CPUTR did not 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, the Consumer Protection (Amendment) Regulations 2014 (SI No.870/2014) was laid before Parliament on 1 April 2014 and came into force on 1 October 2014. These amendments to the CPUTR give consumers a right to redress for misleading or aggressive commercial practices (as defined in the CPUTR), including a right to unwind agreements. This will apply to any unregulated buy-to-let contracts in the Portfolio and any debt collection activity with regard to commercial demands for payment. Breach of certain CPUTR provisions is a criminal offence.

In addition, the Unfair Practices Directive is taken into account in reviewing rules under the FSMA 2000. For example, MCOB rules for regulated mortgage contracts from 25 June 2010 (formerly these were matters of non-binding guidance) 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 a product switch, and (b) automatically capitalising a payment shortfall.

The Unfair Practices Directive provides for a transitional period until 12 June 2013, for applying full harmonisation in the fields to which it relates. 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. It has indicated that intensified national enforcement and reinforced cooperation in cross-border enforcement are needed.

Going forward the Commission will consider how it can play a more active role in enforcement and will continue to perform in-depth reviews of how the directive works in practice.

The Consumer Protection (Amendment) Regulations 2014 came into force on 1 October 2014. This legislation gives consumers a direct right of action including a right to unwind agreements within 90 days of entering into the contract if a misleading or aggressive practice under the CPUTRs was a significant factor in the consumer's decision to enter into the contract. The amendments to the CPUTRs also extend the regime so that it covers misleading and aggressive demands for payment. The legislation applies to demands for payment for restricted-use credit (where the credit must be used to finance a particular transaction) where the misleading or aggressive commercial practice: (i) began before 1 October 2014 and continues after that date,however, a consumer will only be able to exercise his new direct rights of action if a contract is entered into, or payments are made, after the date the legislation comes into force; and (ii) occurs on or after 1 October 2014.

The effect (if any) of the CPUTRs on the Loans, the Seller, the Legal Title-Holder or the Issuer and their respective businesses and operations will depend on whether those entities engage in any of the practices described in the CPUTRs. Whilst engaging in an unfair commercial practice does not render a contract void or unenforceable, to do so is an offence punishable by a fine and/or imprisonment. In practical terms, the CPUTRs have not added much to the regulatory requirements already in place, such as treating customers fairly and conduct of business rules. Breach of the CPUTRs would initiate intervention by a regulator and may lead to criminal sanctions.

No assurance can be given that the CPUTRs will not adversely affect the ability of the Issuer to make payments to Covered Bondholders.

***Protocols on repossessions, protection of tenants on repossessions***

A protocol on mortgage repossession cases in England and Wales came into force on 19 November 2008, and a revised protocol for mortgage repossession cases in Northern Ireland came into force on 5 September 2011. Both protocols set out the steps that judges will expect any mortgage lender to take before starting a claim. A number of mortgage lenders, including the Issuer, have confirmed that they will delay the initiation of repossession action for at least six months after a borrower who is an owner-occupier is in arrears. The application of such moratorium may be subject to the wishes of the relevant borrower and may not apply in cases of fraud.

The Mortgage Repossessions (Protection of Tenants etc.) Act 2010 came into force on 1 October 2010. This Act gives courts in England and Wales the same power to postpone and suspend repossession for up to two months on application by an unauthorised tenant (i.e. a tenant in possession without the lender's consent) as generally exists on application by an authorised tenant. The lender has to serve notice at the property before enforcing a possession order.

Part I of the Home Owner and Debtor Protection (Scotland) Act 2010 came into force on 30 September 2010 and relates to the enforcement of standard securities over residential property in Scotland. Under Part I of the Act, the heritable creditor (the Scottish equivalent to a mortgagee) and which may be the Seller or, in the event of it taking legal title to the Scottish Loans and their Related Security, the LLP, has to obtain a court order to exercise its power of sale (in addition to initiating the enforcement process by the service of a two-month "calling up" notice), unless the borrower and any other occupiers have surrendered the property voluntarily. In applying for the court order, the heritable creditor also has to demonstrate that it has taken various preliminary steps to attempt to resolve the borrower's position, and comply with further procedural requirements.

These protocols and these Acts may have adverse effects in markets experiencing above average levels of possession claims. Delays in the initiation of responsive action in respect of the Loans may result in lower recoveries and may affect the ability of the LLP to make payments under the Covered Bond Guarantee.

***European Market Infrastructure Regulation***

Regulation (EU) No 648/2012 of the European Parliament and of the Council of 4 July 2012 on OTC derivatives, central counterparties and trade repositories (**EMIR**) which entered into force on 16 August 2012 establishes certain requirements for OTC derivatives contracts, including a mandatory clearing obligation, margin posting and other risk-mitigation techniques for OTC derivatives contracts not cleared by a central counterparty, and reporting and record-keeping requirements.

Under EMIR, (i) financial counterparties (**FCs**) and (ii) non-financial counterparties whose positions in OTC derivatives (excluding hedging positions) exceed a specified clearing threshold (**NFC+s**) must clear OTC derivatives contracts that are entered into on or after the effective date for the clearing obligation for that counterparty pair and class of derivatives (the **Clearing Start Date**).

Contracts which are entered into by NFC+ and FC entities and declared subject to the clearing obligation will have to be cleared through an authorised or recognised central counterparty (**CCP**) when they trade with each other or with entities established in a third country that would have been subject to the clearing obligations if they had been established in the EU unless an exemption applies. Subject to certain conditions, intragroup transactions will not be subject to the clearing obligation. At this moment CCPs have been authorised to offer services and activities in the European Union in accordance with EMIR and following the entry into force on 21 December 2015 of the delegated regulation (the **IRS Clearing RTS**) relating to the introduction of the mandatory clearing obligation for certain interest rate swap transactions in USD, EUR, GBP and JPY (**G4 IRS Contracts**), a concrete timeframe was established for the first classes of transactions subject to mandatory clearing and frontloading. The IRS Clearing RTS include a further categorisation of in-scope counterparties by splitting in-scope counterparty types into Category 1, 2, 3 and 4. This further categorisation impacts, amongst other matters, the relevant Clearing Start Date. The clearing obligation for this first wave of contracts started as of 21 June 2016 for Category 1 counterparties, and will start from 21 December 2016 for Category 2 counterparties, 21 June 2017 for Category 3 counterparties and 21 December 2018 for Category 4 counterparties. On the basis that the LLP is currently a non-financial counterparty whose positions in OTC derivatives (after the exclusion of hedging positions) do not exceed any of the specified clearing thresholds (an **NFC-**), OTC derivatives contracts that are entered into by the LLP would not in any event be subject to any mandatory clearing requirements. If the LLP's counterparty status as an NFC- changes and the LLP is unable to rely on any available exemptions from such mandatory clearing requirements contained in the IRS Clearing RTS (or other applicable implementing measures) for certain hedging transactions associated with covered bonds, then certain OTC derivatives contracts that are entered into by the LLP (or amended) on or after the relevant Clearing Start Date may become subject to mandatory clearing requirements under EMIR.

OTC derivatives contracts entered into by NFC+ and FC entities (and/or third country equivalent entities) with each other that are not cleared by a central counterparty may be subject to certain margining requirements under EMIR, which were expected to be phased in from September 2016 in line with international agreement on timing – although the European Commission has recently suggested that the EU rules will now be phased in from 2017. In general, the margining requirements will apply in respect of OTC derivative contracts entered into on or after the relevant application date. The final regulatory technical standard on risk-mitigation techniques for OTC derivative contracts not cleared by a CCP under EMIR (the **Margin RTS**) has not yet been adopted. In any event, on the basis that the LLP is a NFC-, OTC derivatives contracts that are entered into by the LLP would not be subject to any margining requirements pursuant to the Margin RTS. If the LLP's counterparty status as an NFC- changes and the LLP is unable to rely on the exemption from margining requirements for certain hedging transactions associated with covered bonds which is expected to be in the Margin RTS when adopted then certain OTC derivatives contracts that are entered into by the LLP (or amended) on or after the relevant Clearing Start Date may become subject to EMIR margining requirements.

Further, OTC derivatives contracts that are not cleared by a central counterparty are also subject to certain other risk management procedures, including arrangements for timely confirmation of OTC derivatives

contracts, portfolio reconciliation, dispute resolution and arrangements for monitoring the value of outstanding OTC derivatives contracts. These requirements are already in effect. In order to comply with certain of these risk mitigation requirements the LLP includes appropriate provisions in each Swap Agreement and the related Transaction Documents.

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

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

***General***

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

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

The Basel Committee on Banking Supervision (the **Basel Committee**) approved significant changes to the Basel II regulatory capital and liquidity framework in 2011 (such changes being commonly referred to as "**Basel III**"). In particular, Basel III provides for a substantial strengthening of existing prudential rules, including new requirements intended to reinforce capital standards (with heightened requirements for global systemically important banks) and to establish a leverage ratio "backstop" for financial institutions and certain minimum liquidity standards (referred to as the Liquidity Coverage Ratio and the Net Stable Funding Ratio). Coverage Ratio as soon as possible (with provision for phased implementation of particular elements, meaning that the some measures may not apply in full until January 2024) and the Net Stable Funding Ratio from January 2018. Full implementation began from 1 January 2014, with particular elements being phased in over time, to be fully effective by 2024. Implementation of Basel III requires national legislation and therefore the final rules and the timetable for their implementation in each jurisdiction may be subject to some level of national variation.

Implementation of the Basel II framework may have an impact on the capital requirements in respect of the Covered Bonds and/or on incentives to hold the Covered Bonds for investors that are subject to requirements that follow the relevant framework and, as a result, may affect the liquidity and/or value of the Covered Bonds.

In general, investors should consult their own advisers as to the regulatory capital requirements in respect of the Covered Bonds and as to the consequences for and effect on them of any changes to the Capital

framework (including the changes described above) and the relevant implementing measures. No predictions can be made as to the precise effects of such matters on any investor or otherwise.

***Limited Liability Partnerships***

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

***Pensions Act 2004***

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

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

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

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

## FORM OF THE COVERED BONDS

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

**Bearer Covered Bonds**

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

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

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

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

The applicable Final Terms will specify that a Permanent Global Covered Bond will be exchangeable (free of charge), in whole but not in part, for Bearer Definitive Covered Bonds with, where applicable, interest coupons and talons attached upon either (a) not less than 60 days' written notice from Euroclear and/or Clearstream, Luxembourg (acting on the instructions of any holder of an interest in such Permanent Global Covered Bond) to the Principal Paying Agent as described therein or (b) only upon the occurrence of an

Exchange Event. For these purposes, **Exchange Event** means that (i) the Issuer has been notified that both Euroclear and Clearstream, Luxembourg have been closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or have announced an intention permanently to cease business or have in fact done so and no successor clearing system is available or (ii) the Issuer has or will become subject to adverse tax consequences which would not be suffered were the Bearer Covered Bonds represented by the Permanent Global Covered Bond in definitive form. The Issuer will promptly give notice to holders of the Covered Bonds of each Series of Bearer Global Covered Bonds in accordance with Condition 13 (Notices) if an Exchange Event occurs. If an Exchange Event occurs, Euroclear and/or Clearstream, Luxembourg (acting on the instructions of any holder of an interest in such Permanent Global Covered Bond) or the Bond Trustee may give notice to the Principal Paying Agent requesting exchange and, if an Exchange Event occurs as described in (ii) above, the Issuer may also give notice to the Principal Paying Agent requesting exchange. Any such exchange shall occur not later than 45 days after the date of receipt of the first relevant notice by the Principal Paying Agent.

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

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

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

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

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

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

**Registered Covered Bonds**

The Registered Covered Bonds of each Tranche offered and sold in reliance on Regulation S, which will be sold to non-US persons (as defined in Regulation S) outside the United States, will initially be represented by a global covered bond in registered form (a **Regulation S Global Covered Bond**). Prior to expiry of 40 days after the completion of the distribution of each Tranche of Covered Bonds, as certified by the relevant Dealer (in the case of a non-syndicated issue) or the relevant Lead Manager (in the case of a syndicated issue) (such period, the **Distribution Compliance Period**), beneficial interests in a Regulation S Covered Bond may not be offered, sold or delivered to, or for the account or benefit of, a US person (as defined in Regulation S) save as otherwise provided in Condition 2 (Transfers of Registered Covered Bonds) and may

not be held otherwise than through Euroclear or Clearstream, Luxembourg, and such Regulation S Covered Bond will bear a legend regarding such restrictions on transfer.

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

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

Registered Global Covered Bonds will either (a) be deposited with a custodian for, and registered in the name of a nominee of, DTC for the accounts of Euroclear and Clearstream, Luxembourg or (b) be deposited with a Common Depositary or Common Safekeeper, as the case may be, for Euroclear and Clearstream, Luxembourg, and registered in the name of a nominee of the Common Depositary or in the name of a nominee of the Common Safekeeper, as the case may be, as specified in the applicable Final Terms. Persons holding beneficial interests in Registered Global Covered Bonds will be entitled or required, as the case may be, under the circumstances described below, to receive physical delivery of Definitive Covered Bonds in fully registered form.

The Registered Covered Bonds of each Tranche sold to Institutional Accredited Investors will be in definitive form, registered in the name of the holder thereof (**Definitive IAI Registered Covered Bonds**). Unless otherwise set forth in the applicable Final Terms, Definitive IAI Registered Covered Bonds will be issued only in minimum denominations of US$500,000 and integral multiples of US$1,000 in excess thereof (or the approximate equivalents in the applicable Specified Currency). Definitive IAI Registered Covered Bonds will be subject to the restrictions on transfer set forth therein and will bear the restrictive legend described under "*Subscription and Sale and Transfer and Selling Restrictions*". Institutional Accredited Investors that hold Definitive IAI Registered Covered Bonds may elect to hold such Covered Bonds through DTC, but transferees acquiring the Covered Bonds in transactions exempt from Securities Act registration pursuant to Regulation S or Rule 144A under the Securities Act (if available) may do so upon satisfaction of the requirements applicable to such transfer as described under "*Subscription and Sale and Transfer and Selling Restrictions*". The Rule 144A Covered Bonds and the Definitive IAI Registered Covered Bonds will be subject to certain restrictions on transfer set forth therein and will bear a legend regarding such restrictions.

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

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

Interests in a Registered Global Covered Bond will be exchangeable (free of charge), in whole but not in part, for Registered Definitive Covered Bonds without interest coupons or talons attached only upon the occurrence of an Exchange Event. For these purposes, **Exchange Event** means that (a) in the case of Covered Bonds registered in the name of a nominee for DTC, either DTC has notified the Issuer that it is unwilling or unable to continue to act as depository for the Covered Bonds and no alternative clearing system is available or DTC has ceased to constitute a clearing agency registered under the Exchange Act, (b)

in the case of Covered Bonds registered in the name of a nominee for a Common Depositary or in the name of a nominee of the Common Safekeeper, as the case may be, for Euroclear and Clearstream, Luxembourg, the Issuer has been notified that both Euroclear and Clearstream, Luxembourg have been closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or have announced an intention permanently to cease business or have in fact done so and no successor clearing system is available or (c) the Issuer has or will become subject to adverse tax consequences which would not be suffered were the Covered Bonds represented by the Registered Covered Bond in definitive form. The Issuer will promptly give notice to holders of the Covered Bonds of each Series of Registered Global Covered Bonds in accordance with Condition 13 (Notices) if an Exchange Event occurs. If an Exchange Event occurs, DTC, Euroclear and/or Clearstream, Luxembourg (acting on the instructions of any registered holder of an interest in such Registered Global Covered Bond) may give notice to the Registrar requesting exchange and, if an Exchange Event occurs as described in (c) above, the Issuer may also give notice to the Registrar requesting exchange. Any such exchange shall occur not later than ten days after the date of receipt of the first relevant notice by the Registrar.

Definitive Rule 144A Covered Bonds will be issued only in minimum denominations of US$100,000 and integral multiples of US$1,000 in excess thereof (or the approximate equivalents in the applicable Specified Currency).

**N Covered Bonds and Other Covered Bonds**

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

**Transfer of Interests**

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

**General**

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

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

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

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

## FORM OF FINAL TERMS

[Date]

**Nationwide Building Society**

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

**PART A – CONTRACTUAL TERMS**

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions set forth in the Base Prospectus dated [date] [and the supplemental Prospectus dated [date]] which constitutes a base prospectus for the purposes of the Prospectus Directive (Directive 2003/71/EC) (the **Prospectus Directive**). This document constitutes the Final Terms of the Covered Bonds described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with such Base Prospectus. Full information on the Issuer, the LLP and the offer of the Covered Bonds is only available on the basis of the combination of these Final Terms and the Base Prospectus. The Base Prospectus [and the supplemental Prospectus] is available for viewing during normal business hours at the registered office of the Issuer and copies may be obtained from the specified office of each of the Paying Agents and have been published on the Regulatory News Service operated by the London Stock Exchange at www.londonstockexchange.com/exchange/prices-and-news/news/market-news/market-news-home.html.

[Terms used herein shall be deemed to be defined as such for the purposes of the Conditions (the **Conditions**) set forth in the prospectus dated [original date] [and the supplemental Prospectus dated [date]], which constitutes a base prospectus (the **Prospectus**) for the purposes of the Prospectus Directive (Directive 2003/71/EC) (the **Prospectus Directive**) to the extent that such amendments have been implemented in a Member State). This document constitutes the final terms of the Covered Bonds described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with the Prospectus. Full information on the Issuer, the LLP and the offer of the Covered Bonds is only available on the basis of the combination of these Final Terms and the Base Prospectus dated [current date]. Copies of such Prospectus [and the supplemental Prospectus] are available for viewing during normal business hours at the registered office of the Issuer and copies may be obtained from the specified office of each of the Paying Agents and have been published on the Regulatory News Service operated by the London Stock Exchange at www.londonstockexchange.com/exchange/prices-and-news/news/market-news/market-news-home.html.]

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

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

| | | | |
|---|---|---|---|
| | (c) | Series which Covered Bonds will be consolidated and form a single Series with: | [●]/[Not Applicable] |
| | (d) | Date on which the Covered Bonds will be consolidated and form a single Series with the Series specified above: | [●]/[Issue Date]/[Not Applicable] |
| 3. | Specified Currency or Currencies: | | [●] |
| 4. | Nominal Amount of Covered Bonds to be issued: | | [●] |
| 5. | Aggregate Nominal Amount of Covered Bonds: | | |
| | (a) | Series: | [●] |
| | (b) | Tranche: | [●] |
| 6. | Issue Price: | | [●]% of the Aggregate Nominal Amount [plus accrued interest from [●] |
| 7. | (a) | Specified Denominations: | €100,000 and integral multiples of [€1,000] in excess thereof up to and including [€199,000]. No Covered Bonds in definitive form will be issued with a denomination above [€199,000] |
| | (b) | Calculation Amount: | [●] |
| 8. | (a) | Issue Date: | [●] |
| | (b) | Interest Commencement Date: | [●]/[Issue Date]/[Not Applicable] |
| 9. | (a) | Final Maturity Date: | [●]/[Interest Payment Date falling in or nearest to [●]] |
| | (b) | Extended Due for Payment Date of Guaranteed Amounts corresponding to the Final Redemption Amount under the Covered Bond Guarantee: | [●]/[Interest Payment Date falling in or nearest to [●]]/Not Applicable] |
| 10. | Interest Basis: | | [[●] per cent. Fixed Rate]<br><br>[[LIBOR/EURIBOR] +/-[●] per cent. Floating Rate]<br><br>[Zero Coupon] |
| 11. | Redemption/Payment Basis: | | [100] per cent. of the nominal value |
| 12. | Change of Interest Basis: | | [●]/[in accordance with paragraphs [15] and [16] |

| | | |
|---|---|---|
| | | below] |
| 13. | Call Options: | [Issuer Call]/[Not Applicable] |
| 14. | [Date [Board] approval for issuance of Covered Bonds [and Guarantee] obtained: | [●] [and [●], respectively]] |

**PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE**[1]

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

[1] This section relates to interest payable under the Covered Bonds and corresponding amounts of Scheduled Interest payable under the Covered Bond Guarantee.

| | | |
|---|---|---|
| (d) | Business Day Convention: | [Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention] |
| (e) | Business Centre(s): | [●]/[Not Applicable] |
| (f) | Manner in which the Rate(s) of Interest is/are to be determined: | [Screen Rate Determination/ISDA Determination] |
| (g) | Party responsible for calculating the Rate(s) of Interest and/or Interest Amount (if not the [Agent]): | [●] |
| (h) | Screen Rate Determination: | [Applicable/Not Applicable] |
| | – Reference Rate: | Reference Rate: [●] month [LIBOR/EURIBOR] |
| | – Interest Determination Date(s): | [●] |
| | – Relevant Screen Page: | [●] |
| (i) | ISDA Determination: | [Applicable/Not Applicable] |
| | Floating Rate Option: | [●] |
| | Designated Maturity: | [●] |
| | Reset Date: | [●] |
| (j) | Margin(s): | [+/-] [●]per cent. per annum. |
| (k) | Minimum Rate of Interest: | [●] per cent. per annum |
| (l) | Maximum Rate of Interest: | [●] per cent. per annum |
| (m) | Day Count Fraction: | [Actual/Actual ISDA<br>Actual/365 (Fixed)<br>Actual/365 (Sterling)<br>Actual/360<br>30/360<br>360/360<br>Bond Basis<br>30E/360<br>30E/360(ISDA) |

| | | | |
|---|---|---|---|
| | | | Eurobond Basis] |
| 17. | Zero Coupon Covered Bond Provisions: | | [Applicable/Not Applicable] |
| | (a) | [Amortisation/Accrual] Yield: | [●] per cent. per annum |
| | (b) | Reference Price: | [●] |

**PROVISIONS RELATING TO REDEMPTION BY THE ISSUER**

| | | | |
|---|---|---|---|
| 18. | Call Option: | | [Applicable/Not Applicable] |
| | (a) | Optional Redemption Date(s): | [●] |
| | (b) | Optional Redemption Amount of each Covered Bond and method, if any, of calculation of such amount(s): | [●] per Calculation Amount |
| | (c) | If redeemable in part: | |
| | | (i) Minimum Redemption Amount: | [●] per Calculation Amount |
| | | (ii) Higher Redemption Amount: | [●] per Calculation Amount |
| | (d) | Notice period: | [●] |
| 19. | Final Redemption Amount of each Covered Bond: | | [●] per Calculation Amount |
| 20. | Early Redemption Amount(s) per Calculation Amount payable on redemption for taxation reasons, on acceleration following an Issuer Event of Default or an LLP Event of Default: | | [[●] per Calculation Amount] |

**GENERAL PROVISIONS APPLICABLE TO THE COVERED BONDS**

| | | |
|---|---|---|
| 21. | Form of Covered Bonds: | [Bearer Covered Bonds:<br><br>[Temporary Global Covered Bond exchangeable for a Permanent Global Covered Bond which is exchangeable for Bearer Definitive Covered Bonds in definitive form only after an Exchange Event[/on not less than 60 days' notice]<br><br>[Temporary Global Covered Bond exchangeable for Bearer Definitive Covered Bonds only after an Exchange Event]<br><br>[Permanent Global Covered Bond exchangeable for Bearer Definitive Covered Bonds in definitive form only after an Exchange Event[/on not less than 60 days' notice]] |

| | | |
|---|---|---|
| | | [Registered Covered Bonds:<br><br>[Regulation S Global Covered Bond (US$ [●] nominal amount) registered in the name of a nominee for [DTC/a Common Depositary for Euroclear and Clearstream, Luxembourg/a Common Safekeeper for Euroclear and Clearstream, Luxembourg]<br><br>[Rule 144A Global Covered Bond (US$[●] nominal amount) registered in the name of a nominee for [DTC/a Common Depositary for Euroclear and Clearstream, Luxembourg/a Common Safekeeper for Euroclear and Clearstream, Luxembourg]<br><br>[Definitive IAI Registered Covered Bond (*specify nominal amounts*)]] |
| 22. | New Global Covered Bond: | [Yes] [No] |
| 23. | Financial Centre(s) relating to payment dates: | [Not Applicable]/[●] |
| 24. | Talons for future Coupons to be attached to Bearer Definitive Covered Bonds (and dates on which such Talons mature): | [Yes as the Covered Bonds have more than 27 coupon payments, Talons may be required if, on exchange into definitive form, more than 27 coupons payments are still to be made/No] |
| 25. | Redenomination, renominalisation and reconventioning provisions: | [Not Applicable/The provisions [in Condition 5.8 apply] |

## PART B – OTHER INFORMATION

1. LISTING

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

**2. RATINGS**

| | | | |
|---|---|---|---|
| (a) | The Covered Bonds to be issued have been rated: | S & P: | [●] |
| | | Moody's: | [●] |
| | | Fitch: | [●] |

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

| | |
|---|---|
| BMR Spread: | [●]% per annum |
| Fixed Rate Spread: | [●]% per annum |
| SMR Spread: | [●]% per annum |
| Tracker Rate Spread: | [●]% per annum |

**4. [INTERESTS OF NATURAL AND LEGAL PERSONS INVOLVED IN THE [ISSUE/OFFER]**

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

**5.** OPERATIONAL INFORMATION**:**

| | | |
|---|---|---|
| (a) | ISIN Code: | [●] |
| (b) | Common Code: | [●] |
| (c) | [Insert here any other relevant codes such as CUSIP AND CINS codes]: | [Not Applicable/give name(s) and number(s)] |
| (d) | Names and addresses of additional Paying Agent(s) (if any): | [●] |

6. **DISTRIBUTION**

| | |
|---|---|
| U.S. Selling Restrictions | [Reg. S Compliance Category 2; TEFRA D/TEFRA C/TEFRA not applicable] |

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

| | |
|---|---|
| Indication of yield: | [●]<br><br>The yield is calculated at the Issue Date on the basis of the Issue Price. It is not an indication of future yield. |

Signed on behalf of the Issuer:

By:_____
Duly authorised

Signed on behalf of the LLP:

By:_____
Duly authorised

## TERMS AND CONDITIONS OF THE COVERED BONDS

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

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

This Covered Bond is one of a Series (as defined below) of Covered Bonds issued by Nationwide Building Society (the **Issuer**) constituted by a trust deed dated 30 November 2005 and amended and restated on or about 27 November 2006, 25 June 2007, 30 April 2008, 3 July 2009, 6 January 2011, 7 January 2011, 28 June 2012, 17 July 2013, 1 July 2016 and 29 July 2016 (such trust deed as further modified and/or supplemented and/or restated from time to time, the **Trust Deed**) made between the Issuer, Nationwide Covered Bonds LLP as guarantor (the **LLP**) and Citicorp Trustee Company Limited as bond trustee (in such capacity, the **Bond Trustee**, which expression shall include any successor as Bond Trustee) and as security trustee (in such capacity, the **Security Trustee**, which expression shall include any successor as Security Trustee).

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

(a) in relation to any Covered Bonds represented by a global covered bond (a **Global Covered Bond**), units of the lowest Specified Denomination in the Specified Currency;

(b) any Global Covered Bond;

(c) any Definitive Covered Bonds in bearer form (**Bearer Definitive Covered Bonds**) issued in exchange for a Global Covered Bond in bearer form; and

(d) any Definitive Covered Bonds in registered form (**Registered Definitive Covered Bonds**) (whether or not issued in exchange for a Global Covered Bond in registered form).

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

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

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

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

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

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

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

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

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

Copies of the Trust Deed, the Deed of Charge, the Master Definitions and Construction Agreement (as defined below), the Agency Agreement and each of the other Transaction Documents are available for inspection during normal business hours at the registered office for the time being of the Bond Trustee being as at the date of this Base Prospectus at Citigroup Centre, Canada Square, Canary Wharf, London E14 5LB and at the specified office of each of the Paying Agents. Copies of the applicable Final Terms for all Covered Bonds of each Series (including in relation to unlisted Covered Bonds of any Series) are obtainable

during normal business hours at the specified office of each of the Paying Agents and any holder of the Covered Bonds must produce evidence satisfactory to the Issuer and the Bond Trustee or, as the case may be, the relevant Paying Agent as to its holding of Covered Bonds and identity. For the avoidance of doubt, the N Covered Bonds and the N Covered Bond Confirmation will not be available for inspection. The holders of the Covered Bonds and the Couponholders are deemed to have notice of, are bound by, and are entitled to the benefit of, all the provisions of, and definitions contained in, the Trust Deed, the Deed of Charge, the Master Definitions and Construction Agreement, the Agency Agreement, each of the other Transaction Documents and the applicable Final Terms which are applicable to them and to have notice of each set of Final Terms relating to each other Series.

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

## 1. FORM, DENOMINATION AND TITLE

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

This Covered Bond may be denominated in any currency.

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

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

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

For so long as any of the Covered Bonds is represented by a Global Covered Bond held on behalf of or, as the case may be, registered in the name of a common depositary or common safe keeper (as the case may be) for, Euroclear Bank S.A./N.V. (**Euroclear**) and/or Clearstream Banking, *société anonyme* (**Clearstream, Luxembourg**) and/or The Depository Trust Company (**DTC**) or its nominee, each person (other than Euroclear or Clearstream, Luxembourg or DTC) who is for the

time being shown in the records of Euroclear or of Clearstream, Luxembourg or DTC as the holder of a particular nominal amount of such Covered Bonds (in which regard any certificate or other document issued by Euroclear or Clearstream, Luxembourg or DTC as to the nominal amount of such Covered Bonds standing to the account of any person shall be conclusive and binding for all purposes save in the case of manifest error and any such certificate or other document may comprise any form of statement or print out of electronic records provided by the relevant clearing system (including Euroclear's EUCLID or Clearstream's Cedcom system) in accordance with its usual procedures and in which the holder of a particular nominal amount of the Covered Bonds is clearly identified with the amount of such holding) shall be treated by the Issuer, the LLP, the Paying Agents, the Security Trustee and the Bond Trustee as the holder of such nominal amount of such Covered Bonds for all purposes other than with respect to the payment of principal or interest or other amounts on such nominal amount of such Covered Bonds, and, in the case of DTC or its nominee, voting, giving consents and making requests, for which purpose the bearer of the relevant Global Covered Bond or the registered holder of the relevant Registered Global Covered Bond shall be treated by the Issuer, the LLP, any Paying Agent, the Security Trustee and the Bond Trustee as the holder of such nominal amount of such Covered Bonds in accordance with and subject to the terms of the relevant Global Covered Bond and the expressions **Bondholder** and **holder of Covered Bonds** and related expressions shall be construed accordingly.

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

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

## 2. TRANSFERS OF REGISTERED COVERED BONDS

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

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

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

Subject as provided in Conditions 2.5, 2.6 and 2.7 below, upon the terms and subject to the conditions set forth in the Agency Agreement, a Registered Covered Bond in definitive form may be transferred in whole or in part (in the authorised denominations set out in the applicable Final Terms). In order to effect any such transfer (a) the holder or holders must (i) surrender the Registered Covered Bond for registration of the transfer of the Registered Covered Bond (or the relevant part of the Registered Covered Bond) at the specified office of the Registrar or any Transfer

Agent, with the form of transfer thereon duly executed by the holder or holders thereof or his or their attorney or attorneys duly authorised in writing and (ii) complete and deposit such other certifications as may be required by the Registrar or, as the case may be, the relevant Transfer Agent and (b) the Registrar or, as the case may be, the relevant Transfer Agent must, after due and careful enquiry, be satisfied with the documents of title and the identity of the person making the request. Any such transfer will be subject to such reasonable regulations as the Issuer, the Bond Trustee and the Registrar may from time to time prescribe (the initial such regulations being set out in Schedule 6 to the Agency Agreement). Subject as provided above, the Registrar or, as the case may be, the relevant Transfer Agent will, within three business days (being for this purpose a day on which banks are open for business in the city where the specified office of the Registrar or, as the case may be, the relevant Transfer Agent is located) of the request (or such longer period as may be required to comply with any applicable fiscal or other laws or regulations), authenticate and deliver, or procure the authentication and delivery of, at its specified office to the transferee or (at the risk of the transferee) send by uninsured mail, to such address as the transferee may request, a new Registered Covered Bond in definitive form of a like aggregate nominal amount to the Registered Covered Bond (or the relevant part of the Registered Covered Bond) transferred. In the case of the transfer of part only of a Registered Covered Bond in definitive form, a new Registered Covered Bond in definitive form in respect of the balance of the Registered Covered Bond not transferred will be so authenticated and delivered or (at the risk of the transferor) sent by uninsured mail to the address specified by the transferor.

**2.3 Registration of transfer upon partial redemption**

In the event of a partial redemption of Covered Bonds under Condition 6 (Redemption and Purchase), the Issuer shall not be required to register the transfer of any Registered Covered Bond, or part of a Registered Covered Bond, called for partial redemption.

**2.4 Costs of registration**

Holders of the Covered Bonds will not be required to bear the costs and expenses of effecting any registration of transfer as provided above, except for any costs or expenses of delivery other than by regular uninsured mail and except that the Issuer may require the payment of a sum sufficient to cover any stamp duty, tax or other governmental charge that may be imposed in relation to the registration.

**2.5 Transfers of interests in Regulation S Global Covered Bonds**

Prior to expiry of the applicable Distribution Compliance Period, transfers by the holder of, or of a beneficial interest in, a Regulation S Global Covered Bond to a transferee in the United States or who is a US person will only be made:

(a) upon receipt by the Registrar of a written certification substantially in the form set out in the Agency Agreement, amended as appropriate (a **Transfer Certificate**), copies of which are available from the specified office of the Registrar or any Transfer Agent, from the transferor of the Covered Bond or beneficial interest therein to the effect that such transfer is being made:

(i) to a person whom the transferor reasonably believes is a QIB in a transaction meeting the requirements of Rule 144A; or

(ii) to a person who is an Institutional Accredited Investor, together with, in the case of (ii), a duly executed investment letter from the relevant transferee substantially in the form set out in the Agency Agreement (an **IAI Investment Letter**); or

(b) otherwise pursuant to the Securities Act or an exemption therefrom, subject to receipt by the Issuer of such satisfactory evidence as the Issuer may reasonably require, which may include an opinion of US counsel, that such transfer is in compliance with the Securities Act and any applicable securities laws of any State of the United States, and, in each case, in accordance with the Securities Act and any applicable securities laws of any State of the United States or any other jurisdiction.

In the case of (a) above, such transferee may take delivery through a Legended Covered Bond in global or definitive form and, in the case of (b) above, such transferee may take delivery only through a Legended Covered Bond in definitive form. After expiry of the applicable Distribution Compliance Period (a) beneficial interests in Regulation S Global Covered Bonds registered in the name of a nominee for DTC may be held through DTC directly, by a participant in DTC or indirectly through a participant in DTC and (b) such certification requirements will no longer apply to such transfers.

**2.6 Transfers of interests in Legended Covered Bonds**

Transfers of Legended Covered Bonds or beneficial interests therein may be made:

(a) to a transferee who takes delivery of such interest through a Regulation S Global Covered Bond, upon receipt by the Registrar of a duly completed Transfer Certificate from the transferor to the effect that such transfer is being made in accordance with Regulation S and that, in the case of a Regulation S Global Covered Bond registered in the name of a nominee for DTC, if such transfer is being made prior to expiry of the applicable Distribution Compliance Period, the interests in the Covered Bonds being transferred will be held immediately thereafter through Euroclear and/or Clearstream, Luxembourg; or

(b) to a transferee who takes delivery of such interest through a Legended Covered Bond:

(i) where the transferee is a person whom the transferor reasonably believes is a QIB in a transaction meeting the requirements of Rule 144A, without certification; or

(ii) where the transferee is an Institutional Accredited Investor, subject to delivery to the Registrar of a Transfer Certificate from the transferor to the effect that such transfer is being made to an Institutional Accredited Investor, together with a duly executed IAI Investment Letter from the relevant transferee; or

(c) otherwise pursuant to the Securities Act or an exemption therefrom, subject to receipt by the Issuer of such satisfactory evidence as the Issuer may reasonably require, which may include an opinion of US counsel, that such transfer is in compliance with any applicable securities laws of any State of the United States,

and, in each case, in accordance with any applicable securities laws of any State of the United States or any other jurisdiction.

Covered Bonds transferred by Institutional Accredited Investors to QIBs pursuant to Rule 144A or outside the United States pursuant to Regulation S will be eligible to be held by such QIBs or non-US investors through DTC, Euroclear or Clearstream, Luxembourg, as appropriate, and the Registrar will arrange for any Covered Bonds which are the subject of such a transfer to be represented by the appropriate Registered Global Covered Bonds, where applicable.

Upon the transfer, exchange or replacement of Legended Covered Bonds, or upon specific request for removal of the legend therein, the Registrar shall deliver only Legended Covered Bonds or refuse to remove the Legend therein, as the case may be, unless there is delivered to the Issuer such

satisfactory evidence as may reasonably be required by the Issuer, which may include an opinion of US counsel, that neither the Legend nor the restrictions on transfer set forth therein are required to ensure compliance with the provisions of the Securities Act.

**2.7 Exchanges and transfers of Registered Covered Bonds generally**

Holders of Registered Covered Bonds in definitive form, other than Institutional Accredited Investors, may exchange such Covered Bonds for interests in a Registered Global Covered Bond of the same type at any time.

**2.8 Definitions**

In the Conditions, the following expressions shall have the following meanings:

**Distribution Compliance Period** means the period that ends 40 days after the completion of the distribution of the relevant Tranche of Covered Bonds, as certified by the relevant Dealer (in the case of a non-syndicated issue) or the relevant Lead Manager (in the case of a syndicated issue);

**Institutional Accredited Investor** means an "accredited investor" (as defined in Rule 501 (a)(1), (2), (3) or (7) of Regulation D under the Securities Act) that is an institution;

**Legended Covered Bonds** means Registered Covered Bonds in definitive form that are issued to Institutional Accredited Investors and Registered Covered Bonds (whether in definitive form or represented by a Registered Global Covered Bond) sold in private transactions to QIBs in accordance with the requirements of Rule 144A;

**New Safekeeping Structure** means the safekeeping structure for registered notes set out in the press release of the ECB dated 22 October 2008 and titled "Evolution of the custody arrangements for international debt services and their eligibility in Euro system credit operations";

**QIB** means a "qualified institutional buyer" within the meaning of Rule 144A;

**Regulation S** means Regulation S under the Securities Act;

**Regulation S Global Covered Bond** means a Registered Global Covered Bond representing Covered Bonds sold outside the United States in reliance on Regulation S;

**Rule 144A** means Rule 144A under the Securities Act;

**Rule 144A Global Covered Bond** means a Registered Global Covered Bond representing Covered Bonds sold in the United States to QIBs in reliance on Rule 144A; and

**Securities Act** means the United States Securities Act of 1933, as amended.

**3. STATUS OF THE COVERED BONDS AND THE COVERED BOND GUARANTEE**

**3.1 Status of the Covered Bonds**

The Covered Bonds and any relative Coupons constitute direct, unconditional, unsubordinated and unsecured obligations of the Issuer and rank *pari passu* without any preference among themselves and (subject to any applicable statutory provisions) *pari passu* with all other present and future unsecured and unsubordinated obligations of the Issuer.

### 3.2 Status of the Covered Bond Guarantee

The payment of Guaranteed Amounts in respect of the Covered Bonds when the same shall become Due for Payment has been unconditionally and irrevocably guaranteed by the LLP (the **Covered Bond Guarantee**) in the Trust Deed. However, the LLP shall have no obligation under the Covered Bond Guarantee to pay any Guaranteed Amounts until the occurrence of an Issuer Event of Default, service by the Bond Trustee on the Issuer of an Issuer Acceleration Notice and service by the Bond Trustee on the LLP of a Notice to Pay or, if earlier, following the occurrence of an LLP Event of Default and service by the Bond Trustee of an LLP Acceleration Notice. The obligations of the LLP under the Covered Bond Guarantee are direct (following an Issuer Event of Default, service of an Issuer Acceleration Notice and service of a Notice to Pay or an LLP Event of Default and service of an LLP Acceleration Notice), unconditional and unsubordinated obligations of the LLP, which are secured as provided in the Deed of Charge.

Any payment made by the LLP under the Covered Bond Guarantee shall (unless such obligation shall have been discharged as a result of the payment of Excess Proceeds to the Bond Trustee pursuant to Condition 9 (Events of Default and Enforcement)) discharge *pro tanto* the obligations of the Issuer in respect of such payment under the Covered Bonds and Coupons except where such payment has been declared void, voidable or otherwise recoverable in whole or in part and recovered from the Bond Trustee or the holders of the Covered Bonds.

As security for the LLP's obligations under the Covered Bond Guarantee and the other Transaction Documents (as defined in the Master Definitions and Construction Agreement) to which it is a party, the LLP has granted fixed and floating security over all of its assets under the Deed of Charge in favour of the Security Trustee (for itself and on behalf of the other Secured Creditors).

## 4. INTEREST

### 4.1 Interest on Fixed Rate Covered Bonds

Each Fixed Rate Covered Bond bears interest on its Principal Amount Outstanding from (and including) its date of issue (the **Interest Commencement Date**) at the rate(s) per annum equal to the Rate(s) of Interest. Interest will be payable, subject as provided in these Conditions, in arrear on the Interest Payment Date(s) in each year up to (and including) the Final Maturity Date. If a Notice to Pay is served on the LLP, the LLP shall pay Guaranteed Amounts in equivalent amounts to those described above under the Covered Bond Guarantee in respect of the Covered Bonds on the Original Due for Payment Dates or, if applicable, the Extended Due for Payment Date.

If the Covered Bonds are in definitive form, except as provided in the applicable Final Terms, the amount of interest payable on each Interest Payment Date in respect of the Fixed Interest Period ending on (but excluding) such date will amount to the fixed coupon amount specified in the Final Terms (the **Fixed Coupon Amount**). Payments of interest on any Interest Payment Date will, if so specified in the applicable Final Terms, amount to the broken amount specified in the relevant Final Terms (the **Broken Amount**) so specified.

Except in the case of Covered Bonds where a Fixed Coupon Amount or Broken Amount is specified in the applicable Final Terms, interest shall be calculated in respect of any period by applying the Rate of Interest to:

(a) in the case of Fixed Rate Covered Bonds which are represented by a Global Covered Bond, the aggregate outstanding nominal amount of the Fixed Rate Covered Bonds represented by such Global Covered Bond; or

(b) in the case of Fixed Rate Covered Bonds in definitive form, the Calculation Amount;

and in each case, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention. Where the Specified Denomination of a Fixed Rate Covered Bond in definitive form comprises more than one Calculation Amount, the amount of interest payable in respect of such Fixed Rate Covered Bond shall be the aggregate of the amounts (determined in the manner provided above) for each Calculation Amount comprising the Specified Denomination without any further rounding.

**Day Count Fraction** means, in respect of the calculation of an amount of interest in accordance with this Condition 4.1 (Interest on Fixed Rate Covered Bonds):

(a) if Actual/Actual (ICMA) is specified in the applicable Final Terms:

(i) in the case of Covered Bonds where the number of days in the relevant period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date (the **Accrual Period**) is equal to or shorter than the Determination Period during which the Accrual Period ends, the number of days in such Accrual Period divided by the product of (A) the number of days in such Determination Period and (B) the number of Determination Dates (as specified in the applicable Final Terms) that would occur in one calendar year; or

(ii) in the case of Covered Bonds where the Accrual Period is longer than the Determination Period during which the Accrual Period ends, the sum of:

(A) the number of days in such Accrual Period falling in the Determination Period in which the Accrual Period begins divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates that would occur in one calendar year; and

(B) the number of days in such Accrual Period falling in the next Determination Period divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates that would occur in one calendar year; and

(b) if "30/360" is specified in the applicable Final Terms, the number of days in the period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date (such number of days being calculated on the basis of a year of 360 days with 12 30-day months) divided by 360.

In these Conditions:

**Determination Period** means each period from (and including) a Determination Date to (but excluding) the next Determination Date (including, where either the Interest Commencement Date or the final Interest Payment Date is not a Determination Date, the period commencing on the first Determination Date prior to, and ending on the first Determination Date falling after, such date).

**Fixed Interest Period** means the period from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date.

**Original Due for Payment Date** means, in respect of the payment of Guaranteed Amounts, prior to the occurrence of an LLP Event of Default and following the delivery of a Notice to Pay on the LLP, the date on which the Scheduled Payment Date in respect of such Guaranteed Amounts is reached, or, if later, the day which is two Business Days following service of a Notice to Pay on the LLP in

respect of such Guaranteed Amounts or if the applicable Final Terms specified that an Extended Due for Payment Date is applicable to the relevant Series of Covered Bonds, the Interest Payment Date that would have applied if the Final Maturity Date of such Series of Covered Bonds had been the Extended Due for Payment Date.

**Principal Amount Outstanding** means in respect of a Covered Bond on any day the principal amount of that Covered Bond on the relevant Issue Date thereof less principal amounts received by the relevant holder of the Covered Bonds in respect thereof on or prior to that day.

**sub-unit** means, with respect to any currency other than euro, the lowest amount of such currency that is available as legal tender in the country of such currency and, with respect to euro, euro 0.01.

### 4.2 Interest on Floating Rate Covered Bonds

(a) *Interest Payment Dates*

Each Floating Rate Covered Bond bears interest on its Principal Amount Outstanding from (and including) the Interest Commencement Date and such interest will be payable in arrear on either:

(i) the Specified Interest Payment Date(s) in each year specified in the applicable Final Terms; or

(ii) if no Specified Interest Payment Date(s) is/are specified in the applicable Final Terms, each date (each such date, together with each Specified Interest Payment Date, an **Interest Payment Date**) which falls the number of months or other period specified as the Specified Period in the applicable Final Terms after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Interest Commencement Date.

Such interest will be payable in respect of each Interest Period. In these Conditions, the expression **Interest Period** shall mean the period from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date.

If a Business Day Convention is specified in the applicable Final Terms and (x) if there is no numerically corresponding day in the calendar month in which an Interest Payment Date should occur or (y) if any Interest Payment Date would otherwise fall on a day which is not a Business Day, then, if the Business Day Convention specified is:

(iii) in any case where Specified Periods are specified in accordance with Condition 4.2(a)(B) below above, the **Floating Rate Convention**, such Interest Payment Date (a) in the case of (x) above, shall be the last day that is a Business Day in the relevant month and the provisions of (b) below shall apply *mutatis mutandis* or (b) in the case of (y) above, shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event (i) such Interest Payment Date shall be brought forward to the immediately preceding Business Day and (ii) each subsequent Interest Payment Date shall be the last Business Day in the month which falls the Specified Period after the preceding applicable Interest Payment Date occurred; or

(iv) the **Following Business Day Convention**, such Interest Payment Date shall be postponed to the next day which is a Business Day; or

(v) 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

(vi) the **Preceding Business Day Convention**, such Interest Payment Date shall be brought forward to the immediately preceding Business Day.

In these Conditions, **Business Day** means a day which is:

(A) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in London and any Additional Business Centre specified in the applicable Final Terms; and

(B) in the case of any sum payable, either (1) in relation to any sum payable in a Specified Currency other than euro, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Specified Currency and which if the Specified Currency is Australian dollars or New Zealand dollars shall be Sydney and Auckland, respectively or (2) in relation to any Covered Bonds denominated or payable in euro, a euro payments trading system known as TARGET2, or any successor thereto, is open for the settlement of payments in euro. **TARGET2** means the Trans-European Automated Real-Time Gross Settlement Express Transfer payment system which utilises a single shared platform and which was launched on 19 November 2007 or any successor thereto.

(b) *Rate of Interest*

The Rate of Interest payable from time to time in respect of Floating Rate Covered Bonds will be determined in the manner specified in the applicable Final Terms.

(i) *ISDA Determination for Floating Rate Covered Bonds*

Where ISDA Determination is specified in the applicable Final Terms as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period will be the relevant ISDA Rate plus or minus (as indicated in the applicable Final Terms) the Margin (if any). For the purposes of this subparagraph (i), **ISDA Rate** for an Interest Period means a rate equal to the Floating Rate that would be determined by the Principal Paying Agent or other person specified in the applicable Final Terms under an interest rate swap transaction if the Principal Paying Agent or that other person were acting as Calculation Agent for that swap transaction under the terms of an agreement incorporating the 2006 ISDA Definitions, as published by the International Swaps and Derivatives Association, Inc. and as amended and updated as at the Issue Date of the first Tranche of the Covered Bonds (the **ISDA Definitions**) and under which:

(A) the Floating Rate Option is as specified in the applicable Final Terms;

(B) the Designated Maturity is the period specified in the applicable Final Terms; and

(C) the relevant Reset Date is, if the applicable Floating Rate Option is based on the London inter-bank offered rate (**LIBOR**) or, if the applicable Floating Rate Option is based on the Euro-zone inter-bank offered rate (**EURIBOR**) for a currency, the first day of that Interest Period.

For the purposes of this subparagraph (i), **Floating Rate**, **Calculation Agent**, **Floating Rate Option**, **Designated Maturity** and **Reset Date** have the meanings given to those terms in the ISDA Definitions.

(ii) *Screen Rate Determination for Floating Rate Covered Bonds*

Where Screen Rate Determination is specified in the applicable Final Terms as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period will, subject as provided below, be either:

(A) the offered quotation (if there is only one quotation on the Relevant Screen Page); or

(B) the arithmetic mean (rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards) of the offered quotations,

(expressed as a percentage rate per annum) for the Reference Rate which appears or appear, as the case may be, on the Relevant Screen Page as at 11.00 a.m. (London time, in the case of LIBOR, or Brussels time, in the case of EURIBOR) on the Interest Determination Date in question plus or minus the Margin (if any), all as determined by the Principal Paying Agent. If five or more of such offered quotations are available on the Relevant Screen Page, the highest (or, if there is more than one such highest quotation, one only of such quotations) and the lowest (or, if there is more than one such lowest quotation, one only of such quotations) shall be disregarded by the Principal Paying Agent for the purpose of determining the arithmetic mean (rounded as provided above) of such offered quotations.

If the Relevant Screen Page is not available or if, in the case of (A) above, no offered quotation appears or if, in the case of (B) above, fewer than three offered quotations appear, in each case as at 11.00 a.m. (London time, in the case of LIBOR, or Brussels time, in the case of EURIBOR), the Principal Paying Agent shall request each of the Reference Banks to provide the Principal Paying Agent with its offered quotation (expressed as a percentage rate per annum) for the Reference Rate at approximately 11.00 a.m. (London time, in the case of LIBOR, or Brussels time, in the case of EURIBOR) on the Interest Determination Date in question. If two or more of the Reference Banks provide the Principal Paying Agent with offered quotations, the Rate of Interest for the Interest Period shall be the arithmetic mean (rounded if necessary to the eighth decimal place, with 0.000000005 being rounded upwards) of the offered quotations plus or minus (as appropriate) the Margin (if any), all as determined by the Principal Paying Agent.

If on any Interest Determination Date one only or none of the Reference Banks provides the Principal Paying Agent with an offered quotation as provided in the preceding paragraph, the Rate of Interest for the relevant Interest Period shall be the rate per annum which the Principal Paying Agent determines as being the arithmetic mean (rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards) of the rates, as communicated to (and at the request of) the Principal Paying Agent by the Reference Banks or any two or more of them, at which such banks were offered, at approximately 11.00 a.m. (London time, in the case of LIBOR, or Brussels time, in the case of EURIBOR) on the relevant Interest Determination Date, deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate by leading banks in the London interbank market (if the Reference Rate is LIBOR) or the Euro-zone inter-bank market (if the Reference Rate is EURIBOR) plus or minus (as appropriate) the Margin (if any) or, if fewer than two of the Reference Banks provide the Principal Paying Agent with offered rates, the offered rate for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, or the arithmetic mean (rounded as provided above) of the offered rates for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, at which, at approximately 11.00 a.m. (London time, in the case of LIBOR, or Brussels time, in the case of EURIBOR) on the relevant Interest Determination Date, any one or more banks (which bank or banks is or are in the opinion of the Issuer suitable for the purpose) informs the Principal Paying Agent it is

quoting to leading banks in the London inter-bank market (if the Reference Rate is LIBOR) or the Euro-zone inter-bank market (if the Reference Rate is EURIBOR) plus or minus (as appropriate) the Margin (if any), provided that, if the Rate of Interest cannot be determined in accordance with the foregoing provisions of this paragraph, the Rate of Interest shall be determined as at the last preceding Interest Determination Date (though substituting, where a different Margin is to be applied to the relevant Interest Period from that which applied to the last preceding Interest Period, the Margin relating to the relevant Interest Period in place of the Margin relating to that last preceding Interest Period).

(c) *Minimum Rate of Interest and/or Maximum Rate of Interest*

If the applicable Final Terms specifies a Minimum Rate of Interest for any Interest Period, then, in the event that the Rate of Interest in respect of such Interest Period determined in accordance with the provisions of paragraph (b) above is less than such Minimum Rate of Interest, the Rate of Interest for such Interest Period shall be such Minimum Rate of Interest.

If the applicable Final Terms specifies a Maximum Rate of Interest for any Interest Period, then, in the event that the Rate of Interest in respect of such Interest Period determined in accordance with the provisions of paragraph (b) above is greater than such Maximum Rate of Interest, the Rate of Interest for such Interest Period shall be such Maximum Rate of Interest.

(d) *Determination of Rate of Interest and calculation of Interest Amounts*

The Principal Paying Agent, in the case of Floating Rate Covered Bonds will at or as soon as practicable after each time at which the Rate of Interest is to be determined, determine the Rate of Interest for the relevant Interest Period.

The Principal Paying Agent will calculate the amount of interest payable on the Floating Rate Covered Bonds in respect of each Specified Denomination (each an **Interest Amount**) for the relevant Interest Period. Each Interest Amount shall be calculated by applying the Rate of Interest to the Principal Amount Outstanding, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention.

**Day Count Fraction** means, in respect of the calculation of an amount of interest for any Interest Period:

(i) if "Actual/365" or "Actual/Actual (ISDA)" is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365 (or, if any portion of that Interest Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Interest Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Interest Period falling in a non-leap year divided by 365);

(ii) if "Actual/365 (Fixed)" is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365;

(iii) if "Actual/365 (Sterling)" is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365 or, in the case of an Interest Payment Date falling in a leap year, 366;

(iv) if "Actual/360" is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 360;

(v) if "30/360", "360/360" or "Bond Basis" is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360 (the number of days to be calculated on the basis of a year of 360 days with 12 30-day months (unless (a) the last day of the Interest Period is the 31st day of a month but the first day of the Interest Period is a day other than the 30th or 31st day of a month, in which case the month that includes that last day shall not be considered to be shortened to a 30-day month, or (b) the last day of the Interest Period is the last day of the month of February, in which case the month of February shall not be considered to be lengthened to a 30-day month)); and

(vi) if "30E/360" or "Eurobond Basis" is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360 (the number of days to be calculated on the basis of a year of 360 days with 12 30-day months, without regard to the date of the first day or last day of the Interest Period unless, in the case of the final Interest Period, the Final Maturity Date (or, as the case may be, Extended Due for Payment Date) is the last day of the month of February, in which case the month of February shall not be considered to be lengthened to a 30-day month).

(e) *Notification of Rate of Interest and Interest Amounts*

The Principal Paying Agent (in the case of Floating Rate Covered Bonds) will cause the Rate of Interest and each Interest Amount for each Interest Period and the relevant Interest Payment Date to be notified to the Issuer, the Bond Trustee and to any stock exchange or other relevant competent authority or quotation system on which the relevant Floating Rate Covered Bonds are for the time being listed, quoted and/or traded or by which they have been admitted to listing and to be published in accordance with Condition 13 (Notices) as soon as possible after their determination but in no event later than the fourth Business Day (as defined in Condition 4.2(a) (*Interest Payment Dates*)) thereafter by the Principal Paying Agent. Each Interest Amount and Interest Payment Date so notified may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without notice in the event of an extension or shortening of the Interest Period. Any such amendment or alternative arrangements will be promptly notified to the Bond Trustee and each stock exchange or other relevant authority on which the relevant Floating Rate Covered Bonds are for the time being listed or by which they have been admitted to listing and to holders of the Covered Bonds in accordance with Condition 13 (Notices).

(f) *Determination or Calculation by Bond Trustee*

If for any reason at any relevant time after the Issue Date, the Principal Paying Agent or, as the case may be, the Calculation Agent defaults in its obligation to determine the Rate of Interest or the Principal Paying Agent defaults in its obligation to calculate any Interest Amount in accordance with subparagraph (b)(i) or (ii) above or as otherwise specified in the applicable Final Terms, as the case may be, and in each case in accordance with paragraph (d) above, the Bond Trustee 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 Condition, but subject always to any Minimum Rate of Interest 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 Bond Trustee 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 Principal Paying Agent or the Calculation Agent, as the case may be.

(g) *Certificates to be final*

All certificates, communications, opinions, determinations, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this Condition 4.2 (Interest on Floating Rate Covered Bonds), whether by the Principal Paying Agent or the Bond Trustee shall

(in the absence of wilful default, bad faith or manifest error) be binding on the Issuer, the LLP, the Principal Paying Agent, the other Paying Agents, the Bond Trustee and all holders of the Covered Bonds and Couponholders and (in the absence of wilful default or bad faith) no liability to the Issuer, the LLP, the holders of the Covered Bonds or the Couponholders shall attach to the Principal Paying Agent or the Bond Trustee in connection with the exercise or non-exercise by it of its powers, duties and discretions pursuant to such provisions.

**4.3 Accrual of interest**

Interest (if any) will cease to accrue on each Covered Bond (or in the case of the redemption of part only of a Covered Bond, that part only of such Covered Bond) on the due date for redemption thereof unless, upon due presentation thereof, payment of principal is improperly withheld or refused in which event, interest will continue to accrue as provided in the Trust Deed.

**5. PAYMENTS**

**5.1 Method of payment**

Subject as provided below:

(a) payments in a Specified Currency other than euro will be made by credit or transfer to an account in the relevant Specified Currency (which, in the case of a payment in Yen to a non-resident of Japan, shall be a non-resident account) maintained by the payee with, or, at the option of the payee, by a cheque in such Specified Currency drawn on, a bank in the principal financial centre of the country of such Specified Currency (which, if the Specified Currency is Australian dollars or New Zealand dollars, shall be Sydney and Auckland, respectively); and

(b) payments in euro will be made by credit or transfer to a euro account (or any other account to which euro may be credited or transferred) specified by the payee or, at the option of the payee, by a euro cheque.

In the case of Bearer Covered Bonds, payments in US Dollars will be made by transfer to a US Dollar account maintained by the payee with a bank outside of the United States (which expression, as used in this Condition 5 (Payments), means the United States of America, including the State and the District of Columbia, its territories, its possessions and other areas subject to its jurisdiction), or by cheque drawn on a United States bank. In no event will payment in respect of Bearer Covered Bonds be made by a cheque mailed to an address in the United States. All payments of interest in respect of Bearer Covered Bonds will be made to accounts located outside the United States except as may be permitted by United States tax law in effect at the time of such payment without detriment to the Issuer.

Payments will be subject in all cases to (i) any fiscal or other laws and regulations applicable thereto in the place of payment, but without prejudice to the provisions of Condition 7 (Taxation) and (ii) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the 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 Condition 7 (Taxation)) any law implementing an intergovernmental approach thereto. References to Specified Currency will include any successor currency under applicable law. Any such amounts withheld or deducted will be treated as paid for all purposes under the Covered Bonds, and no additional amounts will be paid on the Covered Bonds with respect to any such withholding or deduction.

## 5.2 Presentation of Bearer Definitive Covered Bonds and Coupons

Payments of principal and interest (if any) will (subject as provided below) be made against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of Bearer Definitive Covered Bonds or Coupons, as the case may be, at any specified office of any Paying Agent outside the United States (which expression, as used herein, means the United States of America (including the States and the District of Columbia, its territories, its possessions and other areas subject to its jurisdiction)).

Fixed Rate Covered Bonds in definitive bearer form (other than any Long Maturity Covered Bonds) should be presented for payment together with all unmatured Coupons appertaining thereto (which expression shall include Coupons falling to be issued on exchange of matured Talons), failing which an amount equal to the face value of any missing unmatured Coupon (or, in the case of payment not being made in full, the same proportion of the amount of such missing unmatured Coupon as the sum so paid bears to the total amount due) will be deducted from the amount due for payment. Each amount of principal so deducted will be paid in the manner mentioned above against surrender of the relative missing Coupon at any time before the expiry of 12 years after the Relevant Date (as defined in Condition 7 (Taxation)) in respect of such principal (whether or not such Coupon would otherwise have become void under Condition 8 (Prescription)) or, if later, six years from the date on which such Coupon would otherwise have become due.

Upon amounts in respect of any Fixed Rate Covered Bond in definitive bearer form becoming due and repayable by the Issuer (in the absence of a Notice to Pay) or LLP under the Covered Bond Guarantee prior to its Final Maturity Date (or, as the case may be, Extended Due for Payment Date), all unmatured Talons (if any) appertaining thereto will become void and no further Coupons will be issued in respect thereof.

Upon the due date for redemption of any Floating Rate Covered Bond or Long Maturity Covered Bond in definitive bearer form, all unmatured Coupons and Talons (if any) relating thereto (whether or not attached) shall become void and no payment or, as the case may be, exchange for further Coupons shall be made in respect thereof. A **Long Maturity Covered Bond** is a Fixed Rate Covered Bond (other than a Fixed Rate Covered Bond which on issue had a Talon attached) whose nominal amount on issue is less than the aggregate interest payable thereon provided that such Covered Bond shall cease to be a Long Maturity Covered Bond on the Interest Payment Date on which the aggregate amount of interest remaining to be paid after that date is less than the Principal Amount Outstanding of such Covered Bond. If the date for redemption of any Bearer Definitive Covered Bond is not an Interest Payment Date, interest (if any) accrued in respect of such Covered Bond from (and including) the preceding Interest Payment Date or, as the case may be, the Interest Commencement Date shall be payable only against surrender of the relevant Bearer Definitive Covered Bond.

## 5.3 Payments in respect of Bearer Global Covered Bonds

Payments of principal and interest (if any) in respect of Covered Bonds represented by any Bearer Global Covered Bond will (subject as provided below) be made in the manner specified above in relation to Bearer Definitive Covered Bonds at the specified office of any Paying Agent outside the United States and its possessions. On the occasion, the Paying Agent shall instruct Euroclear and Clearstream, Luxembourg to make appropriate entries in their records to reflect such payment.

## 5.4 Payments in respect of Registered Covered Bonds

Payments of principal in respect of each Registered Covered Bond (whether or not in global form) will be made against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of the Registered Covered Bond at the specified office of the Registrar or any of the

Paying Agents. Such payments will be made by transfer to the Designated Account (as defined below) of the holder (or the first named of joint holders) of the Registered Covered Bond appearing in the register of holders of the Registered Covered Bonds maintained by the Registrar (the **Register**) at the close of business on the third Business Day (being for this purpose a day on which banks are open for business in the city where the specified office of the Registrar is located) before the relevant due date. Notwithstanding the previous sentence, if (a) a holder does not have a **Designated Account** or (b) the principal amount of the Covered Bonds held by a holder is less than US$250,000 (or its approximate equivalent in any other Specified Currency), payment will instead be made by a cheque in the Specified Currency drawn on a Designated Bank (as defined below). For these purposes, **Designated Account** means the account (which, in the case of a payment in Japanese Yen to a non-resident of Japan, shall be a non-resident account) maintained by a holder with a **Designated Bank** and identified as such in the Register and Designated Bank means (in the case of payment in a Specified Currency other than euro) a bank in the principal financial centre of the country of such Specified Currency (which, if the Specified Currency is Australian dollars or New Zealand dollars, shall be Sydney and Auckland, respectively) and (in the case of a payment in euro) any bank which processes payments in euro.

Payments of interest in respect of each Registered Covered Bond (whether or not in global form) will be made by a cheque in the Specified Currency drawn on a Designated Bank and mailed by uninsured mail on the Business Day in the city where the specified office of the Registrar is located on the relevant due date to the holder (or the first named of joint holders) of the Registered Covered Bond appearing in the Register at the close of business on the fifteenth day (whether or not such fifteenth day is a Business Day) before the relevant due date (the **Record Date**) at the holder's address shown in the Register on the Record Date and at the holder's risk. Upon application of the holder to the specified office of the Registrar not less than three Business Days in the city where the specified office of the Registrar is located before the due date for any payment of interest in respect of a Registered Covered Bond, the payment may be made by transfer on the due date in the manner provided in the preceding paragraph. Any such application for transfer shall be deemed to relate to all future payments of interest (other than interest due on redemption) in respect of the Registered Covered Bonds which become payable to the holder who has made the initial application until such time as the Registrar is notified in writing to the contrary by such holder. Payment of the interest due in respect of each Registered Covered Bond on redemption will be made in the same manner as payment of the principal in respect of such Registered Covered Bond.

Holders of Registered Covered Bonds will not be entitled to any interest or other payment for any delay in receiving any amount due in respect of any Registered Covered Bond as a result of a cheque posted in accordance with this Condition arriving after the due date for payment or being lost in the post. No commissions or expenses shall be charged to such holders by the Registrar in respect of any payments of principal or interest in respect of the Registered Covered Bonds.

All amounts payable to DTC or its nominee as registered holder of a Registered Global Covered Bond in respect of Covered Bonds denominated in a Specified Currency other than US dollars shall be paid by transfer by the Registrar to an account in the relevant Specified Currency of the Exchange Agent on behalf of DTC or its nominee for conversion into and payment in US dollars in accordance with the provisions of the Agency Agreement.

None of the Issuer, the LLP, the Bond Trustee or the Agents will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial ownership interests in the Registered Global Covered Bonds or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

### 5.5 General provisions applicable to payments

The holder of a Global Covered Bond (or, as provided in the Trust Deed, the Bond Trustee) shall be the only person entitled to receive payments in respect of Covered Bonds represented by such Global Covered Bond and the Issuer or, as the case may be, the LLP will be discharged by payment to, or to the order of, the holder of such Global Covered Bond (or the Bond Trustee, as the case may be) in respect of each amount so paid. Each of the persons shown in the records of DTC, Euroclear or Clearstream, Luxembourg as the beneficial holder of a particular nominal amount of Covered Bonds represented by such Global Covered Bond must look solely to DTC, Euroclear or Clearstream, Luxembourg, as the case may be, for his share of each payment so made by the Issuer or the LLP to, or to the order of, the holder of such Global Covered Bond (or the Bond Trustee, as the case may be). No person other than the holder of the relevant Global Covered Bond (or, as provided in the Trust Deed, the Bond Trustee) shall have any claim against the Issuer or the LLP in respect of any payments due on that Global Covered Bond.

Notwithstanding the foregoing provisions of this Condition, payments of principal and/or interest in US Dollars will only be made at the specified office of a Paying Agent in the United States if:

(a) the Issuer has appointed Paying Agents with specified offices outside the United States with the reasonable expectation that such Paying Agents would be able to make payment in US Dollars at such specified offices outside the United States of the full amount of interest on the Bearer Global Covered Bonds in the manner provided above when due;

(b) payment of the full amount of such principal and interest at such specified offices outside the United States is illegal or effectively precluded by exchange controls or other similar restrictions on the full payment or receipt of principal and interest in US Dollars; and

(c) such payment is then permitted under United States law without involving, in the opinion of the Issuer and the LLP, adverse tax consequences to the Issuer or the LLP.

### 5.6 Payment Day

If the date for payment of any amount in respect of any Covered Bond or Coupon is not a Payment Day (as defined below), the holder thereof shall not be entitled to payment of the relevant amount due until the next following Payment Day and shall not be entitled to any interest or other sum in respect of any such delay. In this Condition (unless otherwise specified in the applicable Final Terms), **Payment Day** means any day which (subject to Condition 8 (Prescription)) is:

(a) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in:

  (i) the relevant place of presentation;

  (ii) London; and

  (iii) any Additional Financial Centre specified in the applicable Final Terms; and

(b) either (i) in relation to any sum payable in a Specified Currency other than euro, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Specified Currency (if other than the place of presentation, London and any Additional Financial Centre and which if the Specified Currency is Australian dollars or New Zealand dollars shall be Sydney and

Auckland, respectively) or (ii) in relation to any sum payable in euro, a day on which TARGET2 is open; and

(c) in the case of any payment in respect of a Registered Global Covered Bond denominated in a Specified Currency other than US dollars and registered in the name of DTC or its nominee and in respect of which an accountholder of DTC (with an interest in such Registered Global Covered Bond) has elected to receive any part of such payment in US dollars, a day on which commercial banks are not authorised or required by law or regulation to be closed in New York City.

**5.7 Interpretation of principal and interest**

Any reference in these Conditions to principal in respect of the Covered Bonds shall be deemed to include, as applicable:

(a) any additional amounts which may be payable with respect to principal under Condition 7 (Taxation) or under any undertakings or covenants given in addition thereto, or in substitution therefore, pursuant to the Trust Deed;

(b) the Final Redemption Amount of the Covered Bonds;

(c) the Early Redemption Amount of the Covered Bonds;

(d) the Optional Redemption Amount(s) (if any) of the Covered Bonds;

(e) in relation to Zero Coupon Covered Bonds, the Amortised Face Amount (as defined in Condition 6.5 (Early Redemption Amounts));

(f) any premium and any other amounts (other than interest) which may be payable under or in respect of the Covered Bonds; and

(g) any Excess Proceeds which may be payable by the Bond Trustee under or in respect of the Covered Bonds.

Any reference in these Conditions to interest in respect of the Covered Bonds shall be deemed to include, as applicable, any additional amounts which may be payable with respect to interest under Condition 7 (Taxation) or under any undertakings given in addition thereto, or in substitution therefor, pursuant to the Trust Deed.

**5.8 Redenomination**

(a) *Redenomination*

Where redenomination is specified in the applicable Final Terms as being applicable, the Issuer may, without the consent of the Covered Bondholders and the Couponholders, on giving prior written notice to the Bond Trustee, the Security Trustee, the Agents (in the case of Registered Covered Bonds) the Registrar, Euroclear and Clearstream, Luxembourg and at least 30 days' prior notice to the Covered Bondholders in accordance with Condition 13 (Notices), elect that, with effect from the Redenomination Date specified in the notice, the Covered Bonds shall be redenominated in euro. In relation to any Covered Bonds where the applicable Final Terms provide for a minimum Specified Denomination in the Specified Currency which is equivalent to at least euro 100,000 and which are admitted to trading on a regulated market in the European Economic Area, it shall be a term of any

such article that the holder of any Covered Bonds held through Euroclear and/or Clearstream, Luxembourg and/or DTC must have credited to its securities account with the relevant clearing system a minimum balance of Covered Bonds of at least euro 100,000.

The election will have effect as follows:

(i) the Covered Bonds shall be deemed to be redenominated in euro in the denomination of euro 0.01 with a nominal amount for each Covered Bond equal to the nominal amount of that Covered Bond in the Specified Currency, converted into euro at the Established Rate, provided that, if the Issuer determines, in consultation with the Agents and the Bond Trustee, that the then market practice in respect of the redenomination in euro of internationally offered securities is different from the provisions specified above, such provisions shall be deemed to be amended so as to comply with such market practice and the Issuer shall promptly notify the Covered Bondholders, the competent listing authority, stock exchange, and/or market (if any) on or by which the Covered Bonds may be listed and/or admitted to trading and the Paying Agents of such deemed amendments;

(ii) save to the extent that an Exchange Notice has been given in accordance with paragraph (iv) below, the amount of interest due in respect of the Covered Bonds will be calculated by reference to the aggregate nominal amount of Covered Bonds presented (or, as the case may be, in respect of which Coupons are presented) for payment by the relevant holder and the amount of such payment shall be rounded down to the nearest euro 0.01;

(iii) if definitive Covered Bonds are required to be issued after the Redenomination Date, they shall be issued at the expense of the Issuer in the denominations of euro 100,000 and/or such higher amounts as the Agents may determine and notify to the Covered Bondholders and any remaining amounts less than euro 100,000 shall be redeemed by the Issuer and paid to the Covered Bondholders in euro in accordance with Condition 5 (Payments);

(iv) if issued prior to the Redenomination Date, all unmatured Coupons denominated in the Specified Currency (whether or not attached to the Covered Bonds) will become void with effect from the date on which the Issuer gives notice (the **Exchange Notice**) that replacement euro-denominated Covered Bonds and Coupons are available for exchange (provided that such securities are so available) and no payments will be made in respect of them. The payment obligations contained in any Covered Bonds and Coupons so issued will also become void on that date although those Covered Bonds and Coupons will continue to constitute valid exchange obligations of the Issuer. New euro-denominated Covered Bonds and Coupons will be issued in exchange for Covered Bonds and Coupons denominated in the Specified Currency in such manner as the Agents may specify and as shall be notified to the Covered Bondholders in the Exchange Notice. No Exchange Notice may be given less than 15 days prior to any date for payment of principal or interest on the Covered Bonds;

(v) after the Redenomination Date, all payments in respect of the Covered Bonds and the Coupons, other than payments of interest in respect of periods commencing before the Redenomination Date, will be made solely in euro as though references in the Covered Bonds to the Specified Currency were to euro. Payments will be made in euro by credit or transfer to a euro account (or any other account to which euro may be credited or transferred) specified by the payee or, at the option of the payee, by a euro cheque;

(vi) if the Covered Bonds are Fixed Rate Covered Bonds and interest for any period ending on or after the Redenomination Date is required to be calculated for a period ending other than on an Interest Payment Date, it will be calculated by applying the Rate of Interest to each Specified Denomination, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half

of any such subunit being rounded upwards or otherwise in accordance with applicable market convention;

(vii) if the Covered Bonds are Floating Rate Covered Bonds, the applicable Final Terms will specify any relevant changes to the provisions relating to interest; and

(viii) such other changes shall be made to this Condition (and the Transaction Documents) as the Issuer may decide, after consultation with the Agents and the Bond Trustee, and as may be specified in the notice, to conform it to conventions then applicable to instruments denominated in euro.

(b) *Definitions*

In these Conditions, the following expressions have the following meanings:

**Established Rate** means the rate for the conversion of the relevant Specified Currency (including compliance with rules relating to roundings in accordance with applicable European Community regulations) into euro established by the Council of the European Union pursuant to Article 123 of the Treaty.

**euro** means the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty.

**Rate of Interest** means the rate of interest payable from time to time in respect of Floating Rate Covered Bonds, which will be determined in the manner specified in the applicable Final Terms.

**Redenomination Date** means (in the case of interest bearing Covered Bonds) any date for payment of interest under the Covered Bonds or (in the case of Zero Coupon Covered Bonds) any date, in each case specified by the Issuer in the notice given to the Covered Bondholders pursuant to paragraph 5.8 above and which falls on or after the date on which the country of the relevant Specified Currency first participates in the third stage of European economic and monetary union.

**Treaty** means the Treaty establishing the European Community, as amended.

## 6. REDEMPTION AND PURCHASE

### 6.1 Final redemption

Unless previously redeemed or purchased and cancelled as specified below, each Covered Bond will be redeemed by the Issuer at its Final Redemption Amount in the relevant Specified Currency on the Final Maturity Date specified in the applicable Final Terms.

Without prejudice to Condition 9 (Events of Default and Enforcement), if an Extended Due for Payment Date is specified as applicable in the Final Terms for a Series of Covered Bonds and the Issuer has failed to pay the Final Redemption Amount on the Final Maturity Date specified in the Final Terms (or after expiry of the grace period set out in Condition 9.1(a)) and following the service of a Notice to Pay on the LLP by no later than the date falling one Business Day prior to the Extension Determination Date the LLP has insufficient moneys available to apply under the Guarantee Priority of Payments to pay the Guaranteed Amounts corresponding to the Final Redemption Amount in full in respect of the relevant Series of Covered Bonds on the date falling on the earlier of (a) the date which falls two Business Days after service of such Notice to Pay on the LLP or if later the Final Maturity Date (or, in each case, after the expiry of the grace period set out in Condition 9.2(a)) under the terms of the Covered Bond Guarantee or (b) the Extension Determination Date, then (subject as provided below) payment of the unpaid amount by the LLP

under the Covered Bond Guarantee shall be deferred until the Extended Due for Payment Date, provided that any amount representing the Final Redemption Amount due and remaining unpaid on the earlier of (a) and (b) above may be paid by the LLP on any Interest Payment Date thereafter up to (and including) the relevant Extended Due for Payment Date.

The LLP shall notify the relevant holders of the Covered Bonds (in accordance with Condition 13 (Notices)), the Rating Agencies, the Bond Trustee, the Security Trustee, the Principal Paying Agent and the Registrar (in the case of Registered Covered Bonds) as soon as reasonably practicable and in any event at least one Business Day prior to the dates specified in (a) and (b) of the preceding paragraph of any inability of the LLP to pay in full the Guaranteed Amounts corresponding to the Final Redemption Amount in respect of a Series of Covered Bonds pursuant to the Covered Bond Guarantee. Any failure by the LLP to notify such parties shall not affect the validity or effectiveness of the extension nor give rise to any rights in any such party.

In the circumstances outlined above, the LLP shall on the earlier of (a) the date falling two Business Days after the service of a Notice to Pay or if later the Final Maturity Date (or, in each case, after the expiry of the grace period set out in Condition 9.2(a)) and (b) the Extension Determination Date, under the Covered Bond Guarantee, apply the moneys (if any) available (after paying or providing for payment of higher ranking or *pari passu* amounts in accordance with the Guarantee Priority of Payments) *pro rata* in part payment of an amount equal to the Final Redemption Amount of each Covered Bond of the relevant Series of Covered Bonds and shall pay Guaranteed Amounts constituting the Scheduled Interest in respect of each such Covered Bond on such date. The obligation of the LLP to pay any amounts in respect of the balance of the Final Redemption Amount not so paid shall be deferred as described above. Such failure to pay by the LLP shall not constitute an LLP Event of Default.

Any discharge of the obligations of the Issuer as the result of the payment of Excess Proceeds to the Bond Trustee shall be disregarded for the purposes of determining the amounts to be paid by the LLP under the Covered Bond Guarantee in connection with this Condition 6.1 (Final redemption).

For the purposes of these Conditions:

**Extended Due for Payment Date** means, in relation to any Series of Covered Bonds, the date, if any, specified as such in the applicable Final Terms to which the payment of all or (as applicable) part of the Final Redemption Amount payable on the Final Maturity Date will be deferred in the event that the Final Redemption Amount is not paid in full on the Extension Determination Date.

**Extension Determination Date** means, in respect of a Series of Covered Bonds, the date falling two Business Days after the expiry of seven days from (and including) the Final Maturity Date of such Series of Covered Bonds.

**Guarantee Priority of Payments** means the priority of payments relating to moneys standing to the credit of the Transaction Account (to the extent maintained, or otherwise any GIC Account) to be paid on each LLP Payment Date in accordance with the Trust Deed.

**Rating Agency** means any one of Moody's Investors Service Limited, Fitch Ratings Ltd. and S&P Global Ratings (together, the **Rating Agencies**) or their successors, to the extent they provide ratings in respect of the Covered Bonds.

### 6.2 Redemption for taxation reasons

The Covered Bonds may be redeemed at the option of the Issuer in whole, but not in part, at any time (if this Covered Bond is not a Floating Rate Covered Bond) or on any Interest Payment Date (if this Covered Bond is a Floating Rate Covered Bond), on giving not less than 30 nor more than 60 days' notice to the Bond Trustee and, in accordance with Condition 13 (Notices), the holders of the Covered Bonds (which notice shall be irrevocable), if the Issuer satisfies the Bond Trustee immediately before the giving of such notice that:

(a) on the occasion of the next date for payment of interest, the Issuer is or will be required to pay additional amounts as provided in Condition 7 (Taxation); or

(b) the Issuer will be required to account to any taxing authority in the United Kingdom for any amount (other than any tax withheld or deducted from interest payable on the Covered Bonds) calculated by reference to any amount payable in respect of the Covered Bonds or Coupons,

provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer would be obliged to pay such additional amounts were a payment in respect of the Covered Bonds then due.

Covered Bonds redeemed pursuant to this Condition 6.2 (Redemption for taxation reasons) will be redeemed at their Early Redemption Amount referred to in Condition 6.5 below together (if appropriate) with interest accrued to (but excluding) the date of redemption.

### 6.3 Redemption at the option of the Issuer (Issuer Call)

If an Issuer Call is specified in the applicable Final Terms, the Issuer may, having given not less than 30 nor more than 60 days' notice to the Bond Trustee, the Principal Paying Agent, (in the case of the redemption of Registered Covered Bonds) the Registrar and, in accordance with Condition 13 (Notices), the holders of the Covered Bonds (which notice shall be irrevocable and shall specify the date fixed for redemption) redeem all or some only (as specified in the applicable Final Terms) of the Covered Bonds then outstanding on any Optional Redemption Date(s) and at the Optional Redemption Amount(s) specified in, or determined in the manner specified in, the applicable Final Terms together, if applicable, with interest accrued to (but excluding) the relevant Optional Redemption Date(s). Upon expiry of such notice, the Issuer shall be bound to redeem the Covered Bonds accordingly. In the event of a redemption of some only of the Covered Bonds, such redemption must be for a nominal amount not less than the Minimum Redemption Amount or a Higher Redemption Amount each as specified in the applicable Final Terms. In the case of a partial redemption of Covered Bonds, the Covered Bonds to be redeemed (the **Redeemed Covered Bonds**) will be selected individually by lot, in the case of Redeemed Covered Bonds represented by Definitive Covered Bonds, and in accordance with the rules of DTC, Euroclear and/or Clearstream, Luxembourg, (to be reflected in the records of Euroclear and Clearstream, Luxembourg either as a pool factor or a reduction in nominal amount, at their discretion) in the case of Redeemed Covered Bonds represented by a Global Covered Bond, in each case, not more than 60 days prior to the date fixed for redemption (such date of selection being hereinafter called the Selection Date). In the case of Redeemed Covered Bonds represented by Definitive Covered Bonds, a list of the serial numbers of such Redeemed Covered Bonds will be published in accordance with Condition 13 (Notices) not less than 30 days prior to the date fixed for redemption. The aggregate nominal amount of Redeemed Covered Bonds represented by Definitive Covered Bonds shall bear the same proportion to the aggregate nominal amount of all Redeemed Covered Bonds as the aggregate nominal amount of Definitive Covered Bonds outstanding bears to the aggregate nominal amount of the Covered Bonds outstanding, in each case on the Selection Dates, provided that such first mentioned nominal amount shall, if necessary, be rounded downwards to the nearest integral multiple of the Specified

Denomination, and the aggregate nominal amount of Redeemed Covered Bonds represented by a Global Covered Bond shall be equal to the balance of the Redeemed Covered Bonds. No exchange of the relevant Global Covered Bond will be permitted during the period from (and including) the Selection Date to (and including) the date fixed for redemption pursuant to this Condition 6.3 (Redemption at the option of the Issuer (Issuer Call)) and notice to that effect shall be given by the Issuer to the holders of the Covered Bonds in accordance with Condition 13 (Notices) at least 30 days prior to the Selection Date.

**6.4 Redemption due to illegality**

The Covered Bonds of all Series may be redeemed at the option of the Issuer in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days' notice to the Bond Trustee, the Principal Paying Agent, the Registrar and, in accordance with Condition 13 (Notices), all holders of the Covered Bonds (which notice shall be irrevocable), if the Issuer satisfies the Bond Trustee immediately before the giving of such notice that it has, or will, before the next Interest Payment Date of any Covered Bond of any Series, become unlawful for the Issuer to make, fund or allow to remain outstanding any Term Advance made by it to the LLP from the Covered Bonds pursuant to the Intercompany Loan Agreement, as a result of any change in, or amendment to, the applicable laws or regulations or any change in the application or official interpretation of such laws or regulations, which change or amendment has become or will become effective before the next such Interest Payment Date.

Covered Bonds redeemed pursuant to this Condition 6.4 (Redemption due to illegality) will be redeemed at their Early Redemption Amount referred to in Condition 6.5 below together (if appropriate) with interest accrued to (but excluding) the date of redemption.

**6.5 Early Redemption Amounts**

For the purpose of Conditions 6.2 above and 6.8 below and Condition 9 (Events of Default and Enforcement), each Covered Bond will be redeemed at its Early Redemption Amount calculated as follows:

(a) in the case of a Covered Bond with a Final Redemption Amount equal to the Issue Price, at the Final Redemption Amount thereof;

(b) in the case of a Covered Bond (other than a Zero Coupon Covered Bond) at the amount specified in the applicable Final Terms or, if no such amount or manner is so specified in the applicable Final Terms, at its nominal amount; or

(c) in the case of a Zero Coupon Covered Bond, at an amount (the **Amortised Face Amount**) equal to the sum of:

(i) the Reference Price; and

(ii) the product of the Accrual Yield (compounded annually) being applied to the Reference Price from (and including) the Issue Date of the first Tranche of the Covered Bonds to (but excluding) the date fixed for redemption or (as the case may be) the date upon which such Covered Bond becomes due and repayable,

or such other amount as is provided in the applicable Final Terms.

Where such calculation is to be made for a period which is not a whole number of years, it shall be made (a) in the case of a Zero Coupon Covered Bond payable in a Specified Currency other than euro, on the basis of a 360-day year consisting of 12 months of 30 days each or (b) in the case of a

Zero Coupon Covered Bond payable in euro, on the basis of the actual number of days elapsed divided by 365 (or, if any of the days elapsed falls in a leap year, the sum of (x) the number of those days falling in a leap year divided by 366 and (y) the number of those days falling in a non leap year divided by 365) or (c) on such other calculation basis as may be specified in the applicable Final Terms.

**6.6 Purchases**

The Issuer or any of its subsidiaries or the LLP may at any time purchase or otherwise acquire Covered Bonds (provided that, in the case of Bearer Definitive Covered Bonds, Coupons and Talons appertaining thereto are attached thereto or surrendered therewith) at any price and in any manner. If purchases are made by tender, tenders must be available to all holders of the Covered Bonds alike. Such Covered Bonds may be held, reissued, resold or, at the option of the Issuer or the relevant subsidiary, surrendered to any Paying Agent and/or the Registrar for cancellation (except that any Covered Bonds purchased or otherwise acquired by the LLP must immediately be surrendered to any Paying Agent and/or the Registrar for cancellation).

**6.7 Cancellation**

All Covered Bonds which are redeemed will forthwith be cancelled (together with, in the case of Bearer Definitive Covered Bonds, Coupons and Talons attached thereto or surrendered therewith at the time of redemption). All Covered Bonds so cancelled and any Covered Bonds purchased and surrendered for cancellation pursuant to Condition 6.6 above and cancelled (together with, in the case of Bearer Definitive Covered Bonds, Coupons and Talons cancelled therewith) shall be forwarded to the Principal Paying Agent and cannot be held, reissued or resold.

**6.8 Late payment on Zero Coupon Covered Bonds**

If the amount payable in respect of any Zero Coupon Covered Bond upon redemption of such Zero Coupon Covered Bond pursuant to Conditions 6.1, 6.2 or 6.3 above or upon its becoming due and repayable as provided in Condition 9 (Events of Default and Enforcement) is improperly withheld or refused, the amount due and repayable in respect of such Zero Coupon Covered Bond shall be the amount calculated as provided in Condition 6.5(c) above as though the references therein to the date fixed for the redemption or the date upon which such Zero Coupon Covered Bond becomes due and payable were replaced by references to the date which is the earlier of:

(a) the date on which all amounts due in respect of such Zero Coupon Covered Bond have been paid; and

(b) the date on which the full amount of the moneys payable in respect of such Zero Coupon Covered Bonds has been received by the Principal Paying Agent or the Bond Trustee or the Registrar and notice to that effect has been given to the holders of the Covered Bonds either in accordance with Condition 13 (Notices) or individually.

**6.9 Certification on redemption under Condition 6.2 and 6.4**

Prior to the publication of any notice of redemption pursuant to Conditions 6.2 (Redemption for taxation reasons) and 6.4 (Redemption due to illegality), the Issuer shall deliver to the Bond Trustee a certificate signed by two Authorised Signatories (as defined in the Master Definitions and Construction Agreement) of the Issuer stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred and the Bond Trustee shall be entitled to accept the certificate as sufficient evidence of the satisfaction of the conditions precedent set out above, in which event it shall be conclusive and binding on all holders of the Covered Bonds and Couponholders.

## 7. TAXATION

All payments of principal and interest (if any) in respect of the Covered Bonds and Coupons by or on behalf of the Issuer or the LLP, as the case may be, will be made without withholding or deduction for or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature imposed or levied by or on behalf of the United Kingdom or any political sub-division thereof or by any authority therein or thereof having power to tax unless such withholding or deduction of such taxes, duties, assessments or governmental charges is required by law. In the event of such a withholding or deduction being made by the Issuer in respect of a payment made by it, the Issuer will pay such additional amounts as shall be necessary in order that the net amounts received by the holders of the Covered Bonds or Coupons after such withholding or deduction shall equal the respective amounts of principal and interest which would otherwise have been receivable in respect of the Covered Bonds or Coupons, as the case may be, in the absence of such withholding or deduction; except that no such additional amounts shall be payable with respect to any Covered Bond or Coupon:

(a) presented for payment in the United Kingdom; or

(b) presented for payment by or on behalf of a holder who is able to avoid such withholding or deduction by satisfying any statutory requirements or by making a declaration of non-residence or other claim for exemption to the relevant taxing authority but fails to do so;

(c) the holder of which is liable for such taxes, duties, assessments or governmental charges in respect of such Covered Bonds or Coupons (as the case may be) by reason of his having some connection with the United Kingdom other than merely by reason of the holding of such Covered Bonds or Coupons; or

(d) presented for payment more than 30 days after the Relevant Date (as defined below) except to the extent that the holder thereof would have been entitled to an additional amount on presenting the same for payment on such thirtieth day assuming that day to have been a Payment Day (as defined in Condition 5.6 (*Payments – Payment Day*)); or

(e) where the holder is able to avoid such withholding or deduction by presenting an appropriate certificate.

As used herein:

**Relevant Date** means the date on which such payment in respect of the Covered Bond or Coupon first becomes due and payable, except that, if the full amount of the moneys payable on such date has not been duly received by the Bond Trustee, the Registrar or the Principal Paying Agent on or prior to such date, it means the date on which such moneys have been so received, notice to that effect having been given to the holders of the Covered Bonds in accordance with Condition 13 (Notices).

Should any payments made by the LLP under the Covered Bond Guarantee be made subject to any withholding or deduction on account of taxes or duties of whatever nature imposed or levied by or on account of the United Kingdom or any political sub-division thereof or by any authority therein or thereof having power to tax, the LLP will not be obliged to pay any additional amounts as a consequence.

## 8. PRESCRIPTION

The Covered Bonds (whether in bearer or registered form) and Coupons will become void unless presented for payment within 12 years (in the case of principal) and six years (in the case of interest)

in each case from the Relevant Date (as defined in Condition 7 (Taxation)) therefore, subject in each case to the provisions of Condition 5 (Payments).

There shall not be included in any Coupon sheet issued on exchange of a Talon, any Coupon the claim for payment in respect of which would be void pursuant to this Condition or Condition 5 (Payments) or any Talon which would be void pursuant to Condition 5 (Payments).

## 9. EVENTS OF DEFAULT AND ENFORCEMENT

### 9.1 Issuer Events of Default

The Bond Trustee at its discretion may, and if so requested in writing by the holders of at least 25% of the aggregate Principal Amount Outstanding of the Covered Bonds (which for this purpose or the purpose of any Extraordinary Resolution (as defined in the Trust Deed) referred to in this Condition 9.1 (Issuer Events of Default) means the Covered Bonds of this Series together with the Covered Bonds of any other Series constituted by the Trust Deed) then outstanding as if they were a single Series (with the nominal amount of Covered Bonds not denominated in Sterling converted into Sterling at the relevant Covered Bond Swap Rate (as defined in the Master Definitions and Construction Agreement)) or if so directed by an Extraordinary Resolution of all the holders of the Covered Bonds shall, (but in the case of the happening of any of the events mentioned in subparagraphs (b) to (h) below, only if the Bond Trustee shall have certified in writing that such event is, in its opinion, materially prejudicial to the interests of the holders of the Covered Bonds of any Series) (subject in each case to being indemnified and/or secured to its satisfaction), give notice (an **Issuer Acceleration Notice**) in writing to the Issuer and the Issuer shall notify the FCA, pursuant to the RCB Regulations, that as against the Issuer (but not, for the avoidance of doubt, against the LLP under the Covered Bond Guarantee) each Covered Bond of each Series is, and each such Covered Bond shall thereupon immediately become, due and repayable at its Early Redemption Amount together with accrued interest as provided in the Trust Deed if any of the following events (each an **Issuer Event of Default**) shall occur and be continuing:

(a) the Issuer fails to pay any principal or interest in respect of the Covered Bonds within seven days of the due date; or

(b) if the Issuer fails to perform or observe any obligations under the Covered Bonds or Coupons of any Series, the Trust Deed or any other Transaction Document to which the Issuer is a party (other than the Programme Agreement and the Subscription Agreement) but excluding (i) any obligation of the Issuer to comply with the Asset Coverage Test or any representation or warranty given by the Issuer in respect of the Asset Coverage Test or (ii) any obligation of the Issuer which relates solely to its obligations under the RCB Regulations and/or the RCB Sourcebook and breach of which would not otherwise constitute a breach of the other terms of the Transaction Documents, and such failure continues for the period of 30 days (or such longer period as the Bond Trustee may permit) next following the service by the Bond Trustee on the Issuer of notice requiring the same to be remedied (except in circumstances where the Bond Trustee considers such failure to be incapable of remedy in which case no period of continuation will apply and no notice by the Bond Trustee will be required); or

(c) the Issuer or any Principal Subsidiary becomes insolvent or is unable to pay its debts as they mature or applies for or consents to or suffers the appointment of a liquidator or receiver or administrator or similar officer of itself or the whole or any substantial part of its undertaking, property, assets or revenues or takes any proceeding under any law for a readjustment or deferment of its obligations or any part thereof or makes or enters into a general assignment or an arrangement or composition with or for the benefit of its creditors or stops or threatens to cease to carry on its business or any substantial part of its business

except in any case in connection with a substitution pursuant to Condition 14 (Meetings of holders of the Covered Bonds, Modification, Waiver and Substitution) or for the purpose of a reconstruction, union, transfer (of engagements or of business), merger, amalgamation or reorganisation the terms of which have previously been approved in writing by the Bond Trustee or by an Extraordinary Resolution, or in the case of a Principal Subsidiary in connection with the transfer of all or the major part of its business, undertaking and assets to the Issuer or another wholly-owned Subsidiary of the Issuer; or

(d) if the Issuer ceases to carry on its business or substantially the whole of its business (except in any case in connection with a substitution pursuant to Condition 14 (Meetings of holders of the Covered Bonds, Modification, Waiver and Substitution), or for the purpose of or in connection with a reconstruction, union, transfer (of engagements or business), reorganisation, merger, or amalgamation the terms of which have previously been approved in writing by the Bond Trustee or by an Extraordinary Resolution); or

(e) (i) any other present or future indebtedness in respect of moneys borrowed or raised in an amount of £40,000,000 or more (or its equivalent in any other currency) of the Issuer or any Principal Subsidiary becomes due and payable prior to its stated maturity pursuant to a default; or

(ii) any such indebtedness is not paid when due or (as the case may be) within any applicable grace period therefor; or

(iii) the Issuer or any Principal Subsidiary fails to pay when due or (as the case may be) within any applicable grace period therefore any amount payable by it under any present or future guarantee in an amount of £40,000,000 or more (or its equivalent in any other currency) (other than any guarantee given in the ordinary course of its business) for any indebtedness in respect of moneys borrowed or raised; or

(iv) any mortgage, charge, pledge, lien or other encumbrance present or future securing an amount of £40,000,000 or more (or its equivalent in any other currency) and created or assumed by the Issuer or any Principal Subsidiary becomes enforceable and the holder thereof takes any steps to enforce the same; or

(f) a distress or execution or other similar legal process in respect of a claim for £20,000,000 or more is levied or enforced or sued out upon or against any part of the property, assets or revenues of the Issuer or any Principal Subsidiary and is not discharged or stayed within 30 days of having been so levied, enforced or sued out; or

(g) an order is made, an effective resolution is passed or the necessary consent of the Issuer's members is given for the winding up or dissolution of the Issuer or any Principal Subsidiary or the authorisation or registration of the Issuer is or is proposed to be cancelled, suspended or revoked or anything analogous or similar to any of the foregoing occurs (except in any case for the purposes of a reconstruction, union, transfer (of engagements or business), merger, amalgamation or reorganisation the terms of which have previously been approved in writing by the Bond Trustee or by an Extraordinary Resolution or in the case of a voluntary solvent winding up of a wholly-owned Principal Subsidiary in connection with the transfer of all or the major part of its business, undertaking and assets to the Issuer or another wholly-owned Subsidiary of the Issuer or in connection with a substitution pursuant to Condition 14 (Meetings of holders of the Covered Bonds, Modification, Waiver and Substitution)); or

(h) if an Asset Coverage Test Breach Notice has been served and not revoked (in accordance with the terms of the Transaction Documents) on or before the third Calculation Date after service of such Asset Coverage Test Breach Notice.

**Principal Subsidiary** means a Subsidiary of the Issuer whose total assets (attributable to the Issuer) represent 10% or more of the consolidated total assets of the Issuer and its Subsidiaries (all as more particularly described in the Trust Deed). A certificate signed by two Authorised Signatories (as defined in the Master Definitions and Construction Agreement) of the Issuer that in their opinion a Subsidiary of the Issuer is or is not or was or was not at any particular time or throughout any specified period a Principal Subsidiary may be relied upon by the Bond Trustee without further enquiry or evidence and, if so relied upon shall, in the absence of manifest or proven error, be conclusive and binding on all parties.

Upon the Covered Bonds becoming immediately due and repayable against the Issuer pursuant to this Condition 9.1 (Issuer Events of Default), the Bond Trustee shall forthwith serve a notice to pay (the **Notice to Pay**) on the LLP pursuant to the Covered Bond Guarantee and the LLP shall be required to make payments of Guaranteed Amounts when the same shall become Due for Payment in accordance with the terms of the Covered Bond Guarantee.

Following the occurrence of an Issuer Event of Default and service of an Issuer Acceleration Notice, the Bond Trustee may or shall take such proceedings against the Issuer in accordance with the first paragraph of Condition 9.3 (Enforcement).

The Trust Deed provides that all moneys received by the Bond Trustee from the Issuer or any receiver, liquidator, administrator or other similar official appointed in relation to the Issuer following the occurrence of an Issuer Event of Default and service of an Issuer Acceleration Notice and a Notice to Pay (the **Excess Proceeds**), shall be paid by the Bond Trustee on behalf of the holders of the Covered Bonds of the relevant Series to the LLP for its own account, as soon as practicable, and shall be held by the LLP in a GIC Account and the Excess Proceeds shall thereafter form part of the Security and shall be used by the LLP in the same manner as all other moneys from time to time standing to the credit of any GIC Account pursuant to the Deed of Charge and the LLP Deed. Any Excess Proceeds received by the Bond Trustee shall discharge *pro tanto* the obligations of the Issuer in respect of the payment of the amount of such Excess Proceeds under the Covered Bonds and Coupons. However, the obligations of the LLP under the Covered Bond Guarantee are (following service of a Notice to Pay) unconditional and irrevocable and the receipt by the Bond Trustee of any Excess Proceeds shall not reduce or discharge any of such obligations.

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

**9.2 LLP Events of Default**

The Bond Trustee at its discretion may, and if so requested in writing by the holders of at least 25% of the aggregate Principal Amount Outstanding of the Covered Bonds (which for this purpose and the purpose of any Extraordinary Resolution referred to in this Condition 9.2 (LLP Events of Default) means the Covered Bonds of this Series together with the Covered Bonds of any other Series constituted by the Trust Deed) then outstanding as if they were a single Series (with the nominal amount of Covered Bonds not denominated in Sterling converted into Sterling at the relevant Covered Bond Swap Rate) or if so directed by an Extraordinary Resolution of all the holders of the Covered Bonds shall (subject in each case to being indemnified and/or secured to its satisfaction), but in the case of the happening of any of the events described in paragraphs (b) to (g) below, only if the Bond Trustee shall have certified in writing to the Issuer and the LLP that such event is, in its opinion, materially prejudicial to the interests of the holders of the Covered Bonds of any Series, give notice (the **LLP Acceleration Notice**) in writing to the Issuer and to the LLP, that (x) each Covered Bond of each Series is, and each Covered Bond of each Series shall as against the Issuer (if not already due and repayable against it following an Issuer Event of Default), thereupon immediately become, due and repayable at its Early Redemption Amount together with accrued interest and (y) all amounts payable by the LLP under the Covered Bond Guarantee shall thereupon immediately become due and payable at the Guaranteed Amount corresponding to the Early Redemption Amount for each Covered Bond of each Series together with accrued interest, in each case as provided in the Trust Deed and thereafter the Security shall become enforceable if any of the following events (each an **LLP Event of Default**) shall occur and be continuing:

(a) default is made by the LLP for a period of seven days or more in the payment of any Guaranteed Amounts when Due for Payment in respect of the Covered Bonds of any Series except in the case of the payments of a Guaranteed Amount when Due for Payment under Condition 6.1 (Final redemption) where the LLP shall be required to make payments of Guaranteed Amounts which are Due for Payment on the dates specified therein; or

(b) if default is made by the LLP in the performance or observance of any obligation, condition or provision binding on it (other than any obligation for the payment of Guaranteed Amounts in respect of the Covered Bonds of any Series) under the Trust Deed, the Deed of Charge or any other Transaction Document to which the LLP is a party and, except where such default is or the effects of such default are, in the opinion of the Bond Trustee, not capable of remedy when no such continuation and notice as is hereinafter mentioned will be required, such default continues for 30 days (or such longer period as the Bond Trustee may permit) after written notice thereof has been given by the Bond Trustee to the LLP requiring the same to be remedied; or

(c) an order is made or an effective resolution passed for the liquidation or winding up of the LLP; or

(d) if the LLP ceases or threatens to cease to carry on its business or substantially the whole of its business; or

(e) the LLP shall stop payment or shall be unable, or shall admit inability, to pay its debts generally as they fall due or shall be adjudicated or found bankrupt or insolvent; or

(f) proceedings are initiated against the LLP under any applicable liquidation, winding up, insolvency, bankruptcy, composition, reorganisation or other similar laws (including, but not limited to, presentation of a petition or the filing of documents with a court or any registrar for its winding-up, administration or dissolution or the giving notice of the intention to appoint an administrator (whether out of court or otherwise)); or a receiver and/or manager, administrative receiver, administrator, trustee or other similar official shall be appointed

(whether out of court or otherwise) in relation to the LLP or in relation to the whole or any part of its assets, or a distress, diligence or execution or other process shall be levied or enforced upon or sued out against the whole or any part of its assets, or if the LLP shall initiate or consent to judicial proceedings relating to itself under any applicable liquidation, winding up, insolvency, bankruptcy, composition, reorganisation or other similar laws or shall make a conveyance, assignment or assignation for the benefit of, or shall enter into any composition with, its creditors generally; or

(g) a failure to satisfy the Amortisation Test (as set out in the LLP Deed) on any 12th day of each month (or, if that is not a Business Day, then the immediately preceding Business Day) (the **Calculation Date**) following an Issuer Event of Default.

Following the occurrence of an LLP Event of Default and service of an LLP Acceleration Notice on the LLP each of the Bond Trustee and the Security Trustee may or shall take such proceedings or steps in accordance with the first and second paragraphs, respectively, of Condition 9.3 (Enforcement) and the holders of the Covered Bonds shall have a claim against the LLP, under the Covered Bond Guarantee, for an amount equal to the Early Redemption Amount together with accrued interest and any other amount due under the Covered Bonds (other than additional amounts payable under Condition 7 (Taxation)) as provided in the Trust Deed in respect of each Covered Bond.

**9.3 Enforcement**

The Bond Trustee may at any time, at its discretion and without further notice, take such proceedings against the Issuer and/or the LLP, as the case may be, and/or any other person as it may think fit to enforce the provisions of the Trust Deed, the Covered Bonds and the Coupons, but it shall not be bound to take any such enforcement proceedings in relation to the Trust Deed, the Covered Bonds or the Coupons or any other Transaction Document unless (a) it shall have been so directed by an Extraordinary Resolution of all the holders of the Covered Bonds of all Series (with the Covered Bonds of all Series taken together as a single Series as aforesaid) or so requested in writing by the holders of not less than 25% of the aggregate Principal Amount Outstanding of the Covered Bonds of all Series then outstanding (taken together and converted into Sterling at the relevant Covered Bond Swap Rate as aforesaid) and (b) it shall have been indemnified and/or secured to its satisfaction.

In exercising any of its powers, trusts, authorities and discretions the Bond Trustee shall only have regard to the interests of the holders of the Covered Bonds of all Series and shall not have regard to the interests of any other Secured Creditors.

The Security Trustee may at any time, at its discretion and without further notice, take such proceedings against the LLP and/or any other person as it may think fit to enforce the provisions of the Deed of Charge and may, at any time after the Security has become enforceable, take such steps as it may think fit to enforce the Security, but it shall not be bound to take any such steps unless (a) it shall have been so directed by an Extraordinary Resolution of all the holders of the Covered Bonds of all Series (with the Covered Bonds of all Series taken together as a single Series as aforesaid) or a request in writing by the holders of not less than 25% of the aggregate Principal Amount Outstanding of the Covered Bonds of all Series then outstanding (taken together converted into Sterling at the relevant Covered Bond Swap Rate as aforesaid); and (b) it shall have been indemnified and/or secured to its satisfaction. In exercising any of its powers, trusts, authorities and discretions under this paragraph the Security Trustee shall only have regard to the interests of the holders of the Covered Bonds of all Series and shall not have regard to the interests of any other Secured Creditors.

No holder of the Covered Bonds or Couponholder shall be entitled to proceed directly against the Issuer or the LLP or to take any action with respect to the Trust Deed, the Covered Bonds, the Coupons, or the Security unless the Bond Trustee or the Security Trustee, as applicable, having become bound so to proceed, fails so to do within a reasonable time and such failure shall be continuing.

## 10. REPLACEMENT OF COVERED BONDS, COUPONS AND TALONS

Should any Covered Bond, Coupon or Talon be lost, stolen, mutilated, defaced or destroyed, it may be replaced at the specified office of the Principal Paying Agent in London (in the case of Bearer Covered Bonds or Coupons) or the Registrar (in the case of Registered Covered Bonds), or any other place approved by the Bond Trustee of which notice shall have been published in accordance with Condition 13 (Notices) upon payment by the claimant of such costs and expenses as may be incurred in connection therewith and on such terms as to evidence and indemnity as the Issuer may reasonably require. Mutilated or defaced Covered Bonds, Coupons or Talons must be surrendered before replacements will be issued.

## 11. PRINCIPAL PAYING AGENT, PAYING AGENTS, REGISTRAR, TRANSFER AGENT AND EXCHANGE AGENT

The names of the initial Principal Paying Agent, the other initial Paying Agents, the initial Registrar, the initial Transfer Agent, the initial Exchange Agent and their initial specified offices are set out below.

In the event of the appointed office of any such bank being unable or unwilling to continue to act as the Principal Paying Agent, or failing duly to determine the Rate of Interest, if applicable, or to calculate the Interest Amounts for any Interest Period, the Issuer shall appoint the London office of such other bank as may be approved by the Bond Trustee to act as such in its place. The Principal Paying Agent may not resign its duties or be removed from office without a successor having been appointed as aforesaid.

The Issuer is entitled, with the prior written approval of the Bond Trustee, to vary or terminate the appointment of any Paying Agent or the Registrar and/or appoint additional or other Paying Agents or the Registrar and/or approve any change in the specified office through which any Paying Agent or the Registrar acts, provided that:

(a) there will at all times be a Principal Paying Agent and a Registrar;

(b) the Issuer will, so long as any of the Covered Bonds is outstanding, maintain a Paying Agent (which may be the Principal Paying Agent) having a specified office in a city approved by the Bond Trustee in a jurisdiction within Europe, other than the United Kingdom;

(c) so long as any of the Covered Bonds are listed on any stock exchange or admitted to listing by any other relevant authority, there will at all times be a Paying Agent (in the case of Bearer Covered Bonds) and a Transfer Agent (in the case of Registered Covered Bonds) with a specified office in such place as may be required by the rules and regulations of the relevant stock exchange or as the case may be, other relevant authority; and

(d) so long as any of the Registered Global Bonds payable in a Specified Currency other than US dollars are held through DTC or its nominee, there will at all times be an Exchange Agent with a specified office in New York City.

In addition, the Issuer shall forthwith appoint a Paying Agent having a specified office in New York City in the circumstances described in Condition 5.5 (General provisions applicable to payments).

Notice of any such variation, termination, appointment or change will be given by the Issuer to the holders of the Covered Bonds as soon as reasonably practicable in accordance with Condition 13 (Notices).

In acting under the Agency Agreement, the Agents act solely as agents of the Issuer and the LLP and, in certain circumstances specified therein, of the Bond Trustee and do not assume any obligation to, or relationship of agency or trust with, any holders of the Covered Bonds or Couponholders. The Agency Agreement contains provisions permitting any entity into which any Agent is merged or converted or with which it is consolidated or to which it transfers all or substantially all of its assets to become the successor agent.

## 12. EXCHANGE OF TALONS

On and after the Interest Payment Date on which the final Coupon comprised in any Coupon sheet matures, the Talon (if any) forming part of such Coupon sheet may be surrendered at the specified office of the Principal Paying Agent or any other Paying Agent in exchange for a further Coupon sheet including (if such further Coupon sheet does not include Coupons to (and including) the final date for the payment of interest due in respect of the Bearer Covered Bond to which it appertains) a further Talon, subject to the provisions of Condition 8 (Prescription).

## 13. NOTICES

All notices regarding the Bearer Covered Bonds will be valid if published in the Financial Times or any other daily newspaper in London approved by the Bond Trustee or, if this is not possible, in one other English language daily newspaper approved by the Bond Trustee with general circulation in Europe. The Issuer shall also ensure that notices are duly published in a manner which complies with the rules and regulations of any stock exchange or any other relevant authority on which the Bearer Covered Bonds are for the time being listed. Any such notice will be deemed to have been given on the date of the first publication or, where required to be published in more than one newspaper, on the date of the first publication in all required newspapers or where published in such newspapers on different dates, the last date of such first publication.

All notices regarding the Registered Covered Bonds will be deemed to be validly given if sent by first class mail or (if posted to an address overseas) by airmail to the holders (or the first named of joint holders) at their respective addresses recorded in the Register and will be deemed to have been given on the fourth day after mailing and, in addition, for so long as any Registered Covered Bonds are listed, quoted or traded on a stock exchange or are admitted to listing by another relevant authority and the rules of that stock exchange or relevant authority so require, such notice will be published in a daily newspaper of general circulation in the place or places required by those rules.

So long as the Covered Bonds are represented in their entirety by any Global Covered Bonds held on behalf of DTC and/or Euroclear and/or Clearstream, Luxembourg, there may be substituted for such publication in such newspaper(s) the delivery of the relevant notice to DTC and/or Euroclear and/or Clearstream, Luxembourg for communication by them to the holders of the Covered Bonds and, in addition, for so long as any Covered Bonds are listed on a stock exchange or admitted to listing by any other relevant authority and the rules of the stock exchange, or as the case may be, other relevant authority so require, such notice will be published in a daily newspaper of general circulation in the place or places required by that stock exchange or, as the case may be, or any other relevant authority. Any such notice shall be deemed to have been given to the holders of the Covered Bonds on the day on which the said notice was given to DTC and/or Euroclear and/or Clearstream, Luxembourg.

## 14. MEETINGS OF HOLDERS OF THE COVERED BONDS, MODIFICATION, WAIVER AND SUBSTITUTION

The Trust Deed contains provisions for convening meetings of the holders of the Covered Bonds to consider any matter affecting their interests, including the modification by Extraordinary Resolution of these Conditions, the N Covered Bond Conditions applicable to a particular Series of Covered Bonds or the provisions of the Trust Deed or any of the Transaction Documents. The quorum at any such meeting in respect of any Covered Bonds of any Series for passing an Extraordinary Resolution is one or more persons holding or representing not less than a clear majority of the aggregate Principal Amount Outstanding of the Covered Bonds of such Series for the time being outstanding, or at any adjourned meeting one or more persons being or representing holders of the Covered Bonds whatever the nominal amount of the Covered Bonds of such Series so held or represented, except that at any meeting the business of which includes the modification of any Series Reserved Matter, the quorum shall be one or more persons holding or representing not less than two-thirds of the aggregate Principal Amount Outstanding of the Covered Bonds of such Series for the time being outstanding, or at any adjourned such meeting one or more persons holding or representing not less than one-third of the aggregate Principal Amount Outstanding of the Covered Bonds of such Series for the time being outstanding. An Extraordinary Resolution passed at any meeting of the holders of the Covered Bonds of a Series shall, subject as provided below, be binding on all the holders of the Covered Bonds of such Series, whether or not they are present at the meeting, and on all Couponholders in respect of such Series of Covered Bonds. Pursuant to the Trust Deed, the Bond Trustee may convene a single meeting of the holders of Covered Bonds of more than one Series if in the opinion of the Bond Trustee there is no conflict between the holders of such Covered Bonds, in which event the provisions of this paragraph shall apply thereto *mutatis mutandis*.

Notwithstanding the provisions of the immediately preceding paragraph, any Extraordinary Resolution to direct the Bond Trustee to accelerate the Covered Bonds pursuant to Condition 9 (Events of Default and Enforcement) or to direct the Bond Trustee or the Security Trustee to take any enforcement action (each a **Programme Resolution**) shall only be capable of being passed at a single meeting of the holders of the Covered Bonds of all Series then outstanding. Any such meeting to consider a Programme Resolution may be convened by the Issuer, the LLP or the Bond Trustee or by holders of the Covered Bonds of any Series. The quorum at any such meeting for passing a Programme Resolution is one or more persons holding or representing at least a clear majority of the aggregate Principal Amount Outstanding of the Covered Bonds of all Series for the time being outstanding or at any adjourned such meeting one or more persons holding or representing Covered Bonds whatever the nominal amount of the Covered Bonds of any Series so held or represented. A Programme Resolution passed at any meeting of the holders of the Covered Bonds of all Series shall be binding on all holders of the Covered Bonds of all Series, whether or not they are present at the meeting, and on all related Couponholders in respect of such Series of Covered Bonds.

In connection with any meeting of the holders of Covered Bonds of more than one Series where such Covered Bonds are not denominated in Sterling, the nominal amount of the Covered Bonds of any Series not denominated in Sterling shall be converted into Sterling at the relevant Covered Bond Swap Rate.

The Bond Trustee, the Security Trustee, the LLP and the Issuer may also agree (or, in the case of the Bond Trustee and the Security Trustee where such modification arises in respect of the matters set out in (c) below, shall agree (subject as provided in the Trust Deed and the Deed of Charge)), without the consent of the holders of the Covered Bonds or Couponholders of any Series and without the consent of the other Secured Creditors (save for certain amendments, where the consent of any Secured Creditor party to the relevant Transaction Document to be amended shall be required) (and for this purpose the Bond Trustee and the Security Trustee may disregard whether any such modification relates to a Series Reserved Matter), to:

(a) any modification of the Covered Bonds of one or more Series, the related Coupons or any Transaction Document provided that (i) in the opinion of the Bond Trustee such modification is not materially prejudicial to the interests of any of the holders of the Covered Bonds of any Series, and (ii) in the opinion of the Security Trustee such modification is not materially prejudicial to the interests of any of the holders of the Covered Bonds of any Series; or

(b) any modification of the Covered Bonds of any one or more Series, the related Coupons or any Transaction Document which is of a formal, minor or technical nature or is in the opinion of the Bond Trustee and Security Trustee made to correct a manifest error or an error established as such to the satisfaction of the Bond Trustee and the Security Trustee or to comply with mandatory provisions of law; or

(c) any accession, waiver or modification pursuant to Clause 21.5, 21.6, 21.7, 21.8, 21.9, 21.10, 21.11 or 21.12 of the Trust Deed subject as provided further pursuant to the terms of the Trust Deed and the Deed of Charge.

The Bond Trustee may also agree, without the consent of the holders of the Covered Bonds of any Series, the Couponholders, to the waiver or authorisation of any breach or proposed breach of any of the provisions of the Covered Bonds of any Series, or determine, without any such consent as aforesaid, that any Issuer Event of Default or LLP Event of Default or Potential Issuer Event of Default or Potential LLP Event of Default shall not be treated as such, provided that, in any such case, it is not, in the opinion of the Bond Trustee, materially prejudicial to the interests of any of the holders of the Covered Bonds of any Series. The Security Trustee may also agree, without the consent of the holders of the Covered Bonds of any Series, the related Couponholders or any other Secured Creditor, to the waiver or authorisation of any breach or proposed breach of any of the provisions of the Transaction Documents, provided that, in any such case, it is not, in the opinion of the Security Trustee, materially prejudicial to the interests of any of the holders of the Covered Bonds of any Series.

(i) In respect of any modification, waiver, authorisation or determination that is proposed on or after the date on which the Issuer is admitted to the register of issuers pursuant to Regulation 14 of the RCB Regulations, prior to the Bond Trustee or the Security Trustee agreeing to any such modification, waiver, authorisation or determination pursuant to this Condition 14 (Meetings of holders of the Covered Bonds, Modification, Waiver and Substitution) or as directed by the Covered Bondholders, the Issuer must send written confirmation to the Bond Trustee and the Security Trustee that such modification, waiver, authorisation or determination, as applicable, would not result in a breach of the RCB Regulations or the RCB Sourcebook or result in the Issuer and/or the Programme ceasing to be registered under the RCB Regulations and that either such modification, waiver, authorisation or determination would not require notification in accordance with Regulation 20 of the RCB Regulations; or

(ii) if such modification, waiver, authorisation or determination would require notification in accordance with Regulation 20 of the RCB Regulations, the Issuer has provided all information required to be provided to the FCA and the FCA has given its consent to such proposed modification, waiver, authorisation or determination.

Any such modification, waiver, authorisation or determination shall be binding on all holders of the Covered Bonds of all Series of Covered Bonds for the time being outstanding, the related Couponholders and the other Secured Creditors, and unless the Security Trustee and the Bond Trustee otherwise agree, any such modification shall be notified by the Issuer to the holders of the Covered Bonds of all Series of Covered Bonds for the time being outstanding and the other Secured Creditors in accordance with the relevant terms and conditions as soon as practicable thereafter.

In connection with the exercise by it of any of its trusts, powers, authorities and discretions (including, without limitation, any modification, waiver, authorisation or determination), the Bond Trustee and the Security Trustee shall have regard to the general interests of the holders of the Covered Bonds of each Series as a class (but shall not have regard to any interests arising from circumstances particular to individual holders of the Covered Bonds or Couponholders whatever their number) and, in particular but without limitation, shall not have regard to the consequences of any such exercise for individual holders of the Covered Bonds, the related Couponholders (whatever their number) resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory or any political sub-division thereof and the Bond Trustee and the Security Trustee shall not be entitled to require, nor shall any holder of the Covered Bonds or Couponholder be entitled to claim, from the Issuer, the LLP, the Bond Trustee, the Security Trustee or any other person any indemnification or payment in respect of any tax consequences of any such exercise upon individual holders of the Covered Bonds and/or Couponholders, except to the extent already provided for in Condition 7 (Taxation) of these Conditions or Condition 8 (Taxation) of any set of N Covered Bond Conditions and/or in any undertaking or covenant given in addition to, or in substitution for, Condition 7 (Taxation) of these Conditions or Condition 8 (Taxation) of any set of N Covered Bond Conditions pursuant to the Trust Deed.

***Substitution***

(a) Subject as provided in the Trust Deed, the Bond Trustee, if it is satisfied that so to do would not be materially prejudicial to the interests of the holders of the Covered Bonds, may agree, without the consent of the holders of the Covered Bonds or Couponholders, to the substitution of any Successor in Business of the Issuer or of a Subsidiary of the Issuer or any such Successor in Business, not being in any such case a building society formed by the amalgamation of the Issuer and one or more other building societies pursuant to Section 93 of the Building Societies Act or a building society to which the Issuer has transferred all of its engagements pursuant to Section 94 of the Building Societies Act or the successor in accordance with Section 97 of the Building Societies Act or a subsidiary of a mutual society to which the Issuer has transferred the whole of its business pursuant to Section 97 of the Building Societies Act (as modified by the Mutual Transfers Order or any other order made in the future by HM Treasury under section 3 of the Butterfill Act), in place of the Issuer as principal debtor under the Covered Bonds and the Trust Deed, provided (in case of the substitution of any company which is a Subsidiary of the Issuer or such Successor in Business) that the obligations of such Subsidiary in respect of the Covered Bonds and the Trust Deed in respect thereof shall be guaranteed by the Issuer or such Successor in Business in such form as the Bond Trustee may require.

(b) The Issuer has covenanted with the Bond Trustee in the Trust Deed that it will not transfer its business to a successor in accordance with Section 97 of the Building Societies Act unless either (i) the Bond Trustee is satisfied that the successor will be or (as the case may be) will remain an authorised person under the FSMA 2000 (or any statutory modification or re-enactment thereof) and the Issuer has received Rating Agency Confirmation for such transfer or (ii) such transfer is approved by the Bond Trustee or by an Extraordinary Resolution of the holders of the Covered Bonds.

(c) The Issuer has covenanted with the Bond Trustee in the Trust Deed that it will not enter into any arrangement for the transfer of its engagements to another building society pursuant to Section 94 of the Building Societies Act unless it transfers all its engagements to such society (and it has received Rating Agency Confirmation for such transfer) or such transfer has been approved by the Bond Trustee or by an Extraordinary Resolution of the holders of the Covered Bonds.

(d) If the Issuer shall amalgamate with one or more other building societies pursuant to Section 93 of the Building Societies Act or transfer all of its engagements to another building society pursuant to Section 94 of the Building Societies Act or transfer the whole of its business to a successor in accordance with Section 97 of the Building Societies Act or transfer the whole of its business to a subsidiary of a mutual society pursuant to Section 97 of the Building Societies Act (as modified by the Mutual Transfers Order or any other order made in the future by HM Treasury under section 3 of the Butterfill Act) the successor will, pursuant to such provisions and provided that the Issuer has received Rating Agency Confirmation for such amalgamation or transfer, automatically be substituted in place of the Issuer as principal debtor under the Trust Deed without any prior approval thereof being required from the holders of the Covered Bonds, the Couponholders or the Bond Trustee (but without prejudice to the provisions of paragraphs (a), (b) and (c) above).

(e) The Issuer has covenanted with the Bond Trustee in the Trust Deed that it will not agree to the substitution of the Issuer unless any successor to the Issuer or the LLP, including any Successor in Business or the Subsidiary of the Issuer or of such Successor in Business, is included in the register of Issuers pursuant to the RCB Regulations and that all other provisions (including Regulation 20 of the RCB Regulations) of the RCB Regulations and the RCB Sourcebook are satisfied prior to the substitution of the Issuer.

(f) Any substitution pursuant to this Condition 14 (Meetings of holders of the Covered Bonds, Modification, Waiver and Substitution) shall be binding on the holders of the Covered Bonds and the Couponholders and, unless the Bond Trustee agrees otherwise, shall be notified to the holders of the Covered Bonds as soon as practicable thereafter in accordance with Condition 13 (Notices).

For the purposes of this Condition 14 (Meetings of holders of the Covered Bonds, Modification, Waiver and Substitution):

**Potential Issuer Event of Default** means any condition, event or act which, with the lapse of time and/or the issue, making or giving of any notice, certification, declaration, demand, determination and/or request and/or the taking of any similar action and/or the fulfilment of any similar condition, would constitute an Issuer Event of Default;

**Potential LLP Event of Default** means any condition, event or act which, with the lapse of time and/or the issue, making or giving of any notice, certification, declaration, demand, determination and/or request and/or the taking of any similar action and/or the fulfilment of any similar condition, would constitute an LLP Event of Default;

**Successor in Business** means:

(a) any building society (not being a building society which is established by the amalgamation of the Society under and in accordance with the terms of Section 93 of the Building Societies Act) which is validly and effectually, in accordance with all enactments, orders and regulations in force from time to time, registered as a successor society to the Issuer and to another building society or other building societies in order to effect the amalgamation of the Issuer with such other society or societies; or

(b) any building society (not being a building society which undertakes under and in accordance with the terms of Section 94 of the Building Societies Act to fulfil the engagements of the Issuer) which validly and effectually, in accordance with all enactments, orders and regulations in force from time to time, undertakes to fulfil the obligations of the Issuer as part of a transfer of engagements by the Issuer to such building society; or

(c) a company or other entity (not being a successor within the meaning of Section 97 of the Building Societies Act or a subsidiary of a mutual society to which the Issuer has transferred the whole of its business pursuant to Section 97 of the Building Societies Act as modified by the Mutual Transfers Order or any other order made in the future by the Treasury under section 3 of the Butterfill Act) to which the Issuer validly and effectually, in accordance with all enactments, orders and regulations in force for the time being and from time to time, as part of a transfer of the whole or substantially the whole of its business, undertaking or assets, transfers the whole or substantially the whole of its business, undertaking or assets for the purpose of such other company or entity assuming and conducting the business of the Issuer in its place and which company or other entity undertakes to fulfil the obligations of the Issuer under these presents; or

(d) any other entity (not being a successor within the meaning of Section 93 of the Building Societies Act, a society to which the engagements of the Issuer are transferred under Section 94 of the Building Societies Act or a successor within the meaning of Section 97 of the Building Societies Act or a subsidiary of a mutual society to which the Issuer has transferred the whole of its business pursuant to Section 97 of the Building Societies Act as modified by the Mutual Transfers Order or any other order made in the future by the Treasury under section 3 of the Butterfill Act) which in acquiring in any other manner all or a substantial part of the undertaking, property and/or assets of the Issuer or in carrying on as a successor to the Society the whole or a substantial part of the business carried on by the Issuer prior thereto undertakes to fulfil the obligations of the Issuer under these presents,

where, in each of the cases in paragraphs (a) to (d) above, Rating Agency Confirmation has been received in respect of the terms of the proposed transaction; and

**Series Reserved Matter** in relation to Covered Bonds of a Series means; (a) reduction or cancellation of the amount payable or, where applicable, modification of the method of calculating the amount payable or modification of the date of payment or, where applicable, modification of the method of calculating the date of payment in respect of any principal or interest in respect of the Covered Bonds; (b) alteration of the currency in which payments under the Covered Bonds and Coupons are to be made; (c) alteration of the majority required to pass an Extraordinary Resolution; (d) any amendment to the Covered Bond Guarantee or the Deed of Charge (except in a manner determined by the Bond Trustee not to be materially prejudicial to the interests of the holders of the Covered Bonds of any Series); (e) except in accordance with Condition 6.4, the sanctioning of any such scheme or proposal for the exchange or sale of the Covered Bonds for or the conversion of the Covered Bonds into, or the cancellation of the Covered Bonds in consideration of, shares, stock, covered bonds, bonds, debentures, debenture stock and/or other obligations and/or securities of the Issuer or any other company formed or to be formed, or for or into or in consideration of cash, or partly for or into or in consideration of such shares, stock, bonds, covered bonds, debentures, debenture stock and/or other obligations and/or securities as aforesaid and partly for or into or in consideration of cash and for the appointment of some person with power on behalf of the holders of the Covered Bonds to execute an instrument of transfer of the Registered Covered Bonds held by them in favour of the persons with or to whom the Covered Bonds are to be exchanged or sold respectively; and (f) alteration of the proviso to paragraph 5 or paragraph 6 of Schedule 4 to the Trust Deed.

## 15. INDEMNIFICATION OF THE BOND TRUSTEE AND/OR SECURITY TRUSTEE AND BOND TRUSTEE AND/OR SECURITY TRUSTEE CONTRACTING WITH THE ISSUER AND/OR THE LLP

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

The Trust Deed and the Deed of Charge contain provisions for the indemnification of the Bond Trustee and the Security Trustee and for their relief from responsibility, including provisions relieving them from taking any action unless indemnified and/or secured to their satisfaction.

The Trust Deed and the Deed of Charge also contain provisions pursuant to which each of the Bond Trustee and Security Trustee, respectively, is entitled, *inter alia*, (a) to enter into business transactions with the Issuer, the LLP and/or any of their respective Subsidiaries and affiliates and to act as trustee for the holders of any other securities issued or guaranteed by, or relating to, the Issuer, the LLP and/or any of their respective Subsidiaries and affiliates, (b) to exercise and enforce its rights, comply with its obligations and perform its duties under or in relation to any such transactions or, as the case may be, any such trusteeship without regard to the interests of, or consequences for, the holders of the Covered Bonds or Couponholders or the other Secured Creditors and (c) to retain and not be liable to account for any profit made or any other amount or benefit received thereby or in connection therewith.

Neither the Bond Trustee nor the Security Trustee will be responsible for any loss, expense or liability, which may be suffered as a result of any Loans or Related Security, or any deeds or documents of title thereto, being uninsured or inadequately insured or being held by organisations or their operators or by intermediaries such as banks, brokers or other similar persons on behalf of the Bond Trustee and/or the Security Trustee. Neither the Bond Trustee nor the Security Trustee will be responsible for (a) supervising the performance by the Issuer or any other party to the Transaction Documents of their respective obligations under the Transaction Documents and the Bond Trustee and the Security Trustee will be entitled to assume, until they each have written notice to the contrary, that all such persons are properly performing their duties; (b) considering the basis on which approvals or consents are granted by the Issuer or any other party to the Transaction Documents under the Transaction Documents; (c) monitoring the Portfolio, including, without limitation, whether the Portfolio is in compliance with the Asset Coverage Test, the Pre-Maturity Test or the Amortisation Test; or (d) monitoring whether Loans and Related Security satisfy the Eligibility Criteria. Neither the Bond Trustee nor the Security Trustee will be liable to any holder of the Covered Bonds or other Secured Creditor for any failure to make or to cause to be made on their behalf the searches, investigations and enquiries which would normally be made by a prudent chargee in relation to the Security and have no responsibility in relation to the legality, validity, sufficiency and enforceability of the Security and the Transaction Documents.

## 16. FURTHER ISSUES

The Issuer shall be at liberty from time to time without the consent of the holders of the Covered Bonds or the Couponholders to create and issue further bonds having terms and conditions the same as the Covered Bonds of any Series or the same in all respects save for the amount and date of the first payment of interest thereon, issue date and/or purchase price and so that the same shall be consolidated and form a single Series with the outstanding Covered Bonds of such Series.

## 17. CONTRACTS (RIGHTS OF THIRD PARTIES) ACT 1999

No person shall have any right to enforce any term or condition of this Covered Bond under the Contracts (Rights of Third Parties) Act 1999, but this does not affect any right or remedy of any person which exists or is available apart from that Act.

## 18. GOVERNING LAW

The Trust Deed, the Agency Agreement, the corporate services agreement entered into by the LLP, with, *inter alios*, Wilmington Trust SP Services (London) Limited and the LLP dated the Initial Programme Date (such corporate services agreement as modified and/or supplemented and/or restated from time to time, the **Corporate Services Agreement**), the Covered Bonds the Coupons and the other Transaction Documents (other than each declaration of trust in relation to the sale of Scottish loans and their related security by the Issuer to the LLP (each a **Scottish Declaration of Trust**), certain documents to be granted pursuant to the Deed of Charge and the Corporate Services Agreement) and any non-contractual obligations arising out of or in connection with them are governed by, and shall be construed in accordance with, English law unless specifically stated to the contrary. Each Scottish Declaration of Trust is governed by, and shall be construed in accordance with, Scots law. Certain documents to be granted pursuant to the Deed of Charge will be governed by, and construed in accordance with, Scots law.

## USE OF PROCEEDS

The gross proceeds from each issue of Covered Bonds will be used by the Issuer to make available Term Advances to the LLP pursuant to the terms of the Intercompany Loan Agreement, which in turn shall be used by the LLP (after swapping the proceeds of the Term Advances into Sterling, if necessary) either (i) to acquire Loans and their Related Security or (ii) to invest the same in Substitution Assets up to the prescribed limit to the extent required to meet the requirements of Regulations 23 and 24(1)(a)(ii) of the RCB Regulations and the Asset Coverage Test and thereafter may be applied by the LLP:

- to acquire Loans and their Related Security or to invest the same in Substitution Assets up to the prescribed limit; and/or
- if an existing Series, or part of an existing Series, of Covered Bonds is being refinanced by such issue of Covered Bonds, to repay the Term Advance(s) corresponding to the Covered Bonds being so refinanced; and/or
- subject to complying with the Asset Coverage Test, to make a Capital Distribution to a Member; and/or
- to deposit all or part of the proceeds into the GIC Account (including, without limitation, to fund the Reserve Amount to an amount not exceeding the prescribed limit).

## 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 US dollars, all expressed in US dollars per pound sterling (the **Market Exchange Rate**).

**US Dollars Per Pound Sterling**

| **For the financial year ended** | **High** | **Low** | **Average[(1)]** | **Year End** |
|---|---|---|---|---|
| | | *(US dollars per pound sterling)* | | |
| 4 April 2016 | 1.59 | 1.39 | 1.51 | 1.43 |
| 4 April 2015 | 1.72 | 1.47 | 1.61 | 1.49 |
| 4 April 2014 | 1.68 | 1.49 | 1.59 | 1.66 |
| 4 April 2013 | 1.63 | 1.49 | 1.58 | 1.52 |

**US Dollars Per Pound Sterling**

| **For the month of** | **High** | **Low** | **Average[(2)]** | **Month End** |
|---|---|---|---|---|
| | | *(US dollars per pound sterling)* | | |
| 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 10 June 2016) | 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.

## CAPITALISATION AND INDEBTEDNESS

The following is a summary of the Issuer's consolidated capitalisation and indebtedness extracted from its audited consolidated financial statements as at 4 April 2016.

| | As at 4 April 2016 |
|---|---|
| | *(£ millions)* |
| **Consolidated Indebtedness**[(1)] | |
| Deposits from banks | 2,095 |
| Amounts due to customers and other deposits | 13,836 |
| Debt securities in issue | 36,085 |
| **Total Senior Debt** | **52,016** |
| **Subordinated Debt**[(1)(2)] | |
| 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 |
| **Total Subordinated Debt** | **1,848** |
| **Permanent Interest Bearing Shares**[(1)(3)] | |
| 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 |
| **Total Permanent Interest Bearing Shares** | **419** |
| **Members' Funds** | |
| CCDS[(1)] | 531 |
| Other equity instruments[(1)] | 992 |
| General reserve | 8,921 |
| Revaluation reserve | 64 |
| Other reserves | 422 |
| UK retail member deposits[(1)(4)] | 138,715 |
| **Total members' funds** | **149,645** |
| **Total capitalisation** | **203,928** |

Notes:

(1) If the Issuer was 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) The Issuer's rules provide that members may withdraw all or any of their investments by giving appropriate notice specifying the amount to be withdrawn. Members may also make an immediate withdrawal of their investments subject to a possible loss of interest. The Issuer's Board of Directors 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 the Issuer's consolidated capitalisation, indebtedness, guarantees or contingent liabilities since 4 April 2016.

## FINANCIAL RISK MANAGEMENT

### Strategy in using financial instruments

Financial instruments incorporate the vast majority of the Nationwide Group's and the Society's assets and liabilities. Given the dominant position of the Society within the Nationwide Group structure, the term "Nationwide Group" is used in the remainder of this section to cover the activities of both Nationwide Group and Society.

The Nationwide Group accepts deposits from customers at fixed and variable interest rates for various periods and seeks to earn an interest margin by investing these funds in high quality assets, predominantly mortgages. The principal risks which arise from this core activity, and which need to be managed by the Nationwide 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 the Nationwide Group has 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.

The Nationwide Group also uses derivative instruments to manage various aspects of risk. However, in doing so it complies with the Building Societies Act in relation to the use of derivatives to ensure 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. Nationwide Group risk exposures are recorded on the Society's information systems and monitored accordingly.

The Nationwide 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 Nationwide 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 undertaken by the Nationwide Group, the risks associated with such activities and the types of derivatives which are used in managing such risks. Such risks may alternatively be managed using cash instruments as part of an integrated approach to risk management.

| 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 Nationwide Group applies hedge accounting to derivatives in order to reduce accounting volatility. The Nationwide 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 Nationwide Group's exposure to interest rates, foreign exchange rates and other indices. The Lending Committee for Retail, Commercial and Treasury sets Nationwide Group credit policy and regularly monitors and reviews credit exposures arising in all aspects of Nationwide 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 Nationwide 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 Nationwide Group derivatives activity is contracted with Organisation for Economic Co-operation and Development (**OECD**) financial institutions.

Each of the principal financial risks to which the Nationwide 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 Nationwide 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's risk appetite is not to take any market risks except those that are essential to supporting core business activities. In consequence, the Nationwide 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.

Value at Risk (**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 Nationwide 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 Nationwide 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 Nationwide 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 Nationwide 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 Nationwide 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 Nationwide Group only reviews stressed VaR on its GBP portfolio.

The table below highlights the limited amount to which the Nationwide Group is exposed to interest rate risk:

| | **For the year ended 4 April 2016** | | | **For the year ended 4 April 2015** | | |
|---|---|---|---|---|---|---|
| | **Average** | **High** | **Low** | **Average** | **High** | **Low** |
| | | | ***(£ millions)*** | | | |
| 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 Nationwide Group's flexibility to manage net interest margin. If interest rates fall further or become negative, margins may be constrained because the Nationwide Group is unlikely to be able to fully offset the benefit to borrowers through rate changes to banking or savings products.

**Credit risk**

The Nationwide 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 Nationwide 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 Nationwide Group's Lending Committee is responsible for approving and monitoring the Nationwide Group's credit exposures which it does through a formal annual review of the Nationwide 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 Nationwide 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 Nationwide 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 Nationwide 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 Nationwide 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** [(1)(2)(3)] | **Maximum credit risk exposure** |
| | | | ***(£ millions)*** | | | |
| 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 |
| | **206,587** | **13,630** | **220,217** | **193,356** | **13,690** | **207,046** |

Notes:

(1) In addition to the amounts shown above, the Nationwide Group has, as part of its retail operations, revocable commitments of £8,513 million (4 April 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 Nationwide 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 Nationwide Group's hedging programmes.

(3) Off-balance sheet commitments at 4 April 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 Nationwide 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** |
| | | | ***(£ millions)*** | | | |
| VaR (99%/10-day) | 0.1 | 0.3 | - | 0.1 | 0.3 | - |

**Liquidity and funding risk**

Liquidity risk is the risk that the Nationwide 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 Nationwide Group is unable to replace maturing funding or otherwise raise funds on reasonable terms and/or within reasonable timescales.

The Nationwide 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 Nationwide 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 Liquidity 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 Nationwide Group holds a portfolio of liquid assets. Internal stress tests are run daily against a number of scenarios to assess the Nationwide Group's minimum liquidity requirement alongside the calculation of the prescribed regulatory Liquidity Coverage Ratio (**LCR**). Together they represent the Nationwide Group's view of the required levels of liquidity.

The Nationwide 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 realised 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 Nationwide 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 Nationwide Group also has a Recovery Plan which describes potential actions that could be utilised in a more extreme stress scenario.

The Nationwide Group undertakes securities financing transactions in the form of repos to demonstrate liquidity of the securities held in the Nationwide Group's liquid asset buffer (**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 the Nationwide Group’s collateral management processes.

From a liquidity perspective the main risk is that during a stress scenario, the Nationwide Group has 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 the Nationwide Group's 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 4 April 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 re-pricing 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, the Nationwide Group uses judgement and past behavioural performance of each asset and liability class to anticipate the likely cash flow requirements of the Nationwide Group.

The carrying values of derivative financial instruments are included in the columns according to their contractual maturity.

| At 4 April 2016 Residual maturity | Not more than one month[1] £m | 1 – 3 months £m | 3 – 12 months £m | 1 – 5 years £m | More than 5 years £m | Total £m |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| 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 |
| **Total financial assets** | **14,837** | **1,524** | **6,204** | **32,990** | **151,034** | **206,589** |
| **Liabilities** | | | | | | |
| 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 and covered bonds | 65 | 19 | 2,604 | 8,526 | 8,263 | 19,477 |
| 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[4] | - | - | - | 783 | 1,034 | 1,817 |
| Subscribed capital[2] | - | - | - | - | 413 | 413 |
| **Total financial liabilities** | **112,801** | **6,259** | **26,600** | **32,751** | **18,026** | **196,437** |
| Off balance sheet commitments[3] | 13,630 | - | - | - | - | 13,630 |
| **Net liquidity difference** | **(111,594)** | **(4,735)** | **(20,396)** | **239** | **133,008** | **(3,478)** |
| **Cumulative liquidity difference** | **(111,594)** | **(116,329)** | **(393,614)** | **(279,568)** | **(3,478)** | |

| At 4 April 2015 Residual maturity | Not more than one month[1] £m | 1 – 3 months £m | 3 – 12 months £m | 1 – 5 years £m | More than 5 years £m | Total £m |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| 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 | 2,450 | 1,198 | 5,345 | 26,633 | 135,021 | 170,647 |

| | | | | | | |
|---|---|---|---|---|---|---|
| customers | | | | | | |
| Derivative financial instruments | 42 | 115 | 585 | 1,025 | 1,570 | 3,337 |
| Other financial assets | - | 12 | 12 | 350 | 256 | 630 |
| **Total financial assets** | **9,745** | **1,341** | **6,145** | **30,144** | **145,993** | **193,368** |
| **Liabilities** | | | | | | |
| 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[4] | - | - | 266 | 122 | 1,733 | 2,121 |
| Subscribed capital[2] | - | - | - | - | 415 | 415 |
| **Total financial liabilities** | **107,209** | **6,269** | **28,206** | **27,178** | **15,383** | **184,245** |
| Off balance sheet commitments[3] | 13,690 | - | - | - | - | 13,690 |
| **Net liquidity difference** | **(111,154)** | **(4,928)** | **(22,061)** | **2,966** | **130,610** | **(4,567)** |
| **Cumulative liquidity difference** | **(111,154)** | **(116,082)** | **(395,972)** | **(278,370)** | **(4,567)** | |

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 unrecognised 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 Nationwide 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 certain 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, which 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:

| **Gross contractual cash flows for the year ended 4 April 2016** | **Not more than one month[1]** | **1 – 3 months** | **3 – 12 months** | **1 – 5 years** | **More than 5 years** | **Total** |
|---|---|---|---|---|---|---|
| | **£m** | **£m** | **£m** | **£m** | **£m** | **£m** |
| 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[4] | - | - | 87 | 445 | 1,704 | 2,236 |
| Subscribed capital[2] | 1 | 5 | 15 | 89 | 362 | 472 |
| **Total financial liabilities** | **112,832** | **6,595** | **27,718** | **35,090** | **18,590** | **200,825** |
| Off-balance sheet commitments[3] | 13,630 | - | - | - | - | 13,630 |
| **Total financial liabilities including off-balance sheet commitments** | **126,462** | **6,595** | **27,718** | **35,090** | **18,590** | **214,455** |

| **Gross contractual cash flows for the year ended 4 April 2015** | **Not more than one month[1]** | **1 – 3 months** | **3 – 12 months** | **1 – 5 years** | **More than 5 years** | **Total** |
|---|---|---|---|---|---|---|
| | **£m** | **£m** | **£m** | **£m** | **£m** | **£m** |
| 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[4] | - | 4 | 369 | 486 | 1,811 | 2,670 |
| Subscribed capital[2] | 1 | 5 | 15 | 90 | 363 | 474 |
| **Total financial liabilities** | **107,278** | **6,551** | **29,511** | **30,269** | **14,915** | **188,524** |
| Off-balance sheet commitments[3] | 13,690 | - | - | - | - | 13,690 |
| **Total financial liabilities including off-balance sheet commitments** | **120,968** | **6,551** | **29,511** | **30,269** | **14,915** | **202,214** |

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 unrecognised 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 Nationwide Group's option.

## Fair values of financial assets and liabilities

The following table summarises the carrying amounts and fair values of those financial assets and liabilities not presented on the Nationwide Group balance sheets at fair value:

| | Nationwide Group | |
|---|---|---|
| | **Carrying value** | **Fair value** |
| **For the year ended 4 April 2016** | ***(£ millions)*** | |
| **Financial assets** | | |
| 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 |
| **Total** | 182,398 | 181,911 |
| **Financial liabilities** | | |
| 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 |
| **Total** | **191,076** | **192,055** |

| | Nationwide Group | |
|---|---|---|
| | **Carrying value** | **Fair value** |
| **For the year ended 4 April 2015** | ***(£ millions)*** | |
| **Financial assets** | | |
| 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 |
| **Total** | **174,039** | **169,796** |
| **Financial liabilities** | | |
| 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 |

| | | |
|---|---|---|
| **Total** | **176,851** | **177,763** |

**Loans and advances to customers**

Loans and advances are net of provisions for impairment. The estimated fair value of loans and advances to customers 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, but 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 capitalisation. For variable interest rate deposits, estimated future cash flows are discounted using current market interest rates for new debt 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 the Nationwide Group 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 4 April 2016 Nationwide Group** | **Level 1[(1)]** | **Level 2[(2)]** | **Level 3[(3)]** | **Total** |
|---|---|---|---|---|
| | | ***(£ millions)*** | | |
| **Financial Assets** | | | | |
| 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 |
| **Total** | **7,854** | **6,222** | **561** | **14,637** |
| **Financial Liabilities** | | | | |
| Derivative financial instruments | - | (3,458) | (5) | (3,463) |
| Other deposits – PEB | - | - | (1,885) | (1,885) |
| **Total** | **-** | **(3,458)** | **(1,890)** | **(5,348)** |

| For the year ended 4 April 2015<br>Nationwide Group | Level 1[(1)] | Level 2[(2)] | Level 3[(3)] | Total |
|---|---|---|---|---|
| | | *(£ millions)* | | |
| **Financial Assets** | | | | |
| 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 |
| **Total** | **7,759** | **5,704** | **948** | **14,411** |
| **Financial Liabilities** | | | | |
| Derivative financial instruments | - | 4,047 | (3,331) | 716 |
| Other deposits - PEB | - | (4,047) | (1) | (4,048) |
| **Total** | **-** | **-** | **(3,332)** | **(3,332)** |

Notes:

(1) Level 1: Fair value derived from unadjusted quoted prices in active markets for identical assets or liabilities, e.g. G10 government securities.

(2) Level 2: Fair value derived from inputs other than quoted prices that are observable for the asset or liability, either directly (i.e. a price) or indirectly (i.e. derived from prices), e.g. most investment grade and liquid bonds, asset backed securities, certain collateralised debt obligations (**CDOs**), collateralised loan obligations (**CLOs**) and over-the-counter (**OTC**) derivatives.

(3) Level 3: Inputs for the asset or liability are not based on observable market data (unobservable inputs), e.g. private equity investments, derivatives including an equity element, deposits including an equity element, some CDOs and certain asset backed securities and bonds.

Other financial assets represent fair value movements in mortgage commitments entered into where a loan has not yet been made. The Nationwide Group fair values a portion of the mortgage commitments on the balance sheet.

The Nationwide Group's Level 1 portfolio comprises highly rated government and multi-lateral development securities for which traded prices are readily available and during the year ended 4 April 2016 the Nationwide Group has 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 2 portfolios during the year ended 4 April 2016.

With respect to 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 the Level 3 portfolio are as follows:

***Investment securities – AFS***

The Nationwide 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 recognised 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 4 April 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 Nationwide 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 recognised within gains/losses from derivatives and hedge accounting. Upon maturity the gain/loss is transferred to interest expense and similar charges.

***Other deposits - PEBs***

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 (4 April 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 recognised 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 Nationwide Group is contractually required to pay at maturity for the PEBs is £1.6 billion (4 April 2015: £2.6 billion). The maximum additional amount which would also be payable at maturity in respect of additional investment returns is £636 million (4 April 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 Nationwide 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 analyses movements in the Level 3 portfolio:

| **For the year ended 4 April 2016** | **Investment securities - AFS** | **Investments in equity shares** | **Net derivative financial instruments - liabilities** | **Other deposits - PEBs** |
|---|---|---|---|---|
| | | | ***(£ millions)*** | |
| As at 4 April 2015 | 12 | 25 | 910 | (3,332) |
| (Loss)/gains recognised in income statement: | | | | |
| Net interest (expense)/income | - | - | 398 | (439) |
| Gains/(losses) from derivative and hedge accounting | - | - | (476) | 465 |
| (Loss)/gain recognised in other comprehensive income: | | | | |
| Fair value movement taken to members' interests and equity | - | 100 | - | - |
| Settlements | - | | (401) | 1,421 |
| Transfers out of Level 3 | (12) | - | - | - |

| | | | | |
|---|---|---|---|---|
| **As at 4 April 2016** | **-** | **125** | **431** | **(1,885)** |

| **For the year ended 4 April 2015** | **Investment securities - AFS** | **Investments in equity shares** | **Net derivative financial instruments - liabilities** | **Other deposits - PEBs** |
|---|---|---|---|---|
| | | *(£ millions)* | | |
| As at 4 April 2014 | 71 | 28 | 669 | (3,222) |
| (Loss)/gains recognised in 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 recognised in other comprehensive income: | | | | |
| Fair value movement taken to members' interests and equity | 1 | (3) | - | - |
| Settlements | (55) | - | (1) | 185 |
| **As at 4 April 2015** | **12** | **25** | **910** | **(3,332)** |

The significant movements in Level 3 positions during the year ended 4 April 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 4 April 2016** | **Carrying value** | **Increase in fair value** | **Decrease in fair value** |
|---|---|---|---|
| | | *(£ millions)* | |
| **Investment securities – AFS:** | | | |
| Collateralised debt obligations | - | - | - |
| Investments in equity shares | 125 | 41 | (32) |
| Net derivative financial instruments | 431 | - | - |
| Other deposits – PEBs | (1,885) | - | - |
| **Total** | **(1,329)** | **41** | **(32)** |

| **For the year ended 4 April 2015** | **Carrying value** | **Increase in fair value** | **Decrease in fair value** |
|---|---|---|---|
| | | *(£ millions)* | |
| **Investment securities – AFS:** | | | |
| Collateralised debt obligations | 12 | 1 | (1) |

| | | | |
|---|---|---|---|
| Investments in equity shares | 25 | 2 | (1) |
| Net derivative financial instruments | 910 | - | - |
| Other deposits – PEBs | (3,332) | - | - |
| **Total** | **(2,385)** | **3** | **(2)** |

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 increase 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 Nationwide Group to be immaterial so these items have therefore been excluded from the table above.

## MANAGEMENT

The Issuer's business is under the control of its 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 the Issuer's rules, the Board of Directors must consist of not less than eight directors of whom not less than five must be present at a Board meeting to form a quorum.

No potential conflicts of interest exist between any duties to Nationwide, as Issuer, of the persons on the board of directors and their private interests or other duties.

### Management and Director Changes

Joe Garner was appointed to the Board on 5 April 2016 as Chief Executive. Neither Geoffrey Howe, the previous Chairman of the Board of Directors, nor Michael Jary, a non-executive member of the Board of Directors, stood for re-election, and resigned from the Board of Directors following the 2015 annual general meeting on 23 July 2015. David Roberts was also elected as Chairman on that date. Mai Fyfield and Tim Tookey were appointed to the Board on 2 June 2015 and Kevin Parry on 23 May 2016. On 21 July 2016, Kevin Parry was appointed as Chairman of the Audit Committee and a member of the Nomination and Governance Committee. Roger Perkin retired from the Board following the annual general meeting on 21 July 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 |
| Lynne Peacock | 62 | Senior Independent 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 |
| Joe Garner | 46 | Chief Executive | - |

| Name | Age | Position | Other Directorships |
|---|---|---|---|
| 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 Limited<br>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 |

| Name | Age | Position | Other Directorships |
|---|---|---|---|
| | | | BrandCap Ltd |
| | | | The Conservation Volunteers |
| | | | TCV Trading 1 Limited |
| | | | TCV Trading 2 Limited |
| | | | ASOS Plc |
| | | | Rita Clifton Limited |
| | | | Ascential plc |
| Mitchel 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 |
| 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 |
| Kevin Parry | 54 | Non Executive Director | Intermediate Capital Group plc |
| | | | Standard Life plc |
| | | | Daily Mail and General Trust plc |
| | | | Royal National Children's Foundation |
| | | | Homes & Communities Agency |
| | | | KAH Parry Limited |

## 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 analysing 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 organisations, 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.

**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**

*Senior Independent 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.

**Kevin Parry**

*Non-Executive Director*

Kevin has enjoyed a long and successful career in the financial sector and professional practice in both Executive and Non-Executive roles. He is a Non-Executive Director of Intermediate Capital Group plc and became its Chairman on 21 July 2016. Kevin is the Senior Independent Director and Chairman of the Audit Committee of Standard Life plc and is a Non-Executive Director and Chairman of the Audit Committee of Daily Mail and General Trust plc. He is also Chairman of the Homes and Communities Agency and Deputy Chairman of the Royal National Children's Foundation.

**Committees of the Issuer's Board of Directors**

The Issuer's 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 the Issuer's 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 the Issuer maintains 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 the Issuer's director and executive officer remuneration policy. The Issuer has designed its policy to ensure that director and executive officer remuneration reflects performance and allows the Issuer to attract, retain and motivate a sufficient number of talented executives. The Remuneration Committee reviews, evaluates and makes recommendations to the Board regarding the Issuer's executive compensation standards and practices, including basic salaries, bonus distributions, pension fund contribution and the medium-term incentive scheme. The Remuneration Committee consists of all non-executive directors.

The Board Risk Committee, which meets 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 the Issuer's key operational committee which oversees the day-to-day operations of its business. This committee meets once each week, reviews all matters that are to be presented to the Board of Directors, and is composed of the Issuer's Chief Executive, the three other executive directors and the four Group Directors.

The Executive Risk Committee, which meets monthly, is responsible for ensuring a co-ordinated approach across all risks and oversight of the risk committees. The Committee's membership comprises the Executive 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 Nationwide 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 Nationwide Group, ensuring that controls over operational risk are adequately designed and operating effectively and managing and reviewing the operational risk exposures of the Nationwide 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 Nationwide 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 Nationwide 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 Nationwide 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 and 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 Nationwide 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 4 April 2016 the aggregate amount of compensation that the Issuer paid to all directors and executive officers as a group totalled £9.5 million. From April 2014 the Issuer has operated a performance pay plan for Directors which features deferral periods of up to 5 years on some elements and 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 4 April 2016, the Issuer 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 Nationwide 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.

The Issuer maintains a register containing the details of all loans, transactions and other arrangements made between its directors (and persons connected with its directors) and Nationwide or its subsidiaries. This register is available for inspection at the Issuer's annual general meetings and during normal business hours at its principal office during the fifteen days prior to the Issuer's annual general meeting.

**Management Employee Pension Schemes**

G.J. Beale has opted out of the Nationwide Pension Fund, and he receives a monthly allowance in lieu of pension scheme accrual.

T.P. Prestedge has opted out of the Nationwide Group Personal Pension Arrangement and receives a monthly allowance in lieu of an employer contribution into the Nationwide Group Personal Pension Arrangement.

M.M. Rennison has opted out of the Nationwide Pension 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 the Issuer's audited consolidated financial statements incorporated by reference herein.

## COMPETITION

### Industry Background

The Issuer's main competitors are the five largest UK banking groups. In addition the Issuer also competes 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 organisations with which the Issuer continues 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 organisation or demutualised and transferred their businesses to existing or specially formed banks. As a result, the number of building societies in the United Kingdom has fallen from 137 in 1985 to 44 as at 4 April 2016. Building societies today continue to hold an important share of the UK mortgage and savings market and have been recognised 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 organisations 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 demutualisation 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 organisations 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 of some of the larger participants, though scope to do this is reducing as the incumbents tackle their shortcomings. Competition regulation has assisted 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 31 December | Total Balances[(1)] | Building Societies and Banks[(1)(2)] | Others[(1)] | The Issuer's share of total UK residential mortgages[(1)] |
|---|---|---|---|---|
| | *(£ billions, except percentages)* | | | |
| 2015 | 1,278.1 | 87.0% | 13.0% | 12.5% |
| 2014 | 1,255.9 | 85.7% | 14.3% | 12.0% |
| 2013 | 1,236.7 | 84.9% | 15.1% | 11.6% |

Notes:

(1) Source: The Bank of England (excluding lending to housing associations), except for information regarding the Issuer's balances which are taken from the Issuer's own data. Building society figures include the Issuer's own balances. Separate data for Banks and Building Societies is not available from December 2013 onwards.

(2) As of 2013, the Bank of England 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—Risk Factors Relating to the Issuer—Changes to interest rates or monetary policy, whether by the UK, US or other central banking authorities, could affect the financial condition of the Issuer's customers, clients and counterparties, which could in turn adversely affect the Issuer*.". Competition is driven by a combination of price, risk profile and access to funding by lenders.

The Issuer's market share of gross advances of 13.7% during the financial year ended 4 April 2016 was above its par share of 12.0% at the beginning of the 2015 calendar year. Over the financial year ended 4 April 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 organisation. Below is a table breaking down the total UK retail deposit market by type of financial institution compiled from details published by the Bank of England.

| Year ended December 31, | Total UK retail deposits[1] | Building societies' and Banks' share of total UK retail deposits[1][2] | Others[1] | The Issuer's share of total UK retail deposits[1] |
|---|---|---|---|---|
| | | *(£ billions, except percentages)* | | |
| 2015 | 1,346.1 | 90.0% | 10.0% | 10.2% |
| 2014 | 1,279.3 | 91.3% | 8.7% | 10.5% |
| 2013 | 1,225.2 | 91.4% | 8.6% | 10.7% |

Notes:

(1) Source: Bank of England, except for information regarding the Issuer's balances which are taken from its own data. Separate data for Banks & Building Societies is not available from December 2013 onwards.

(2) As of 2013, the Bank of England 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 commoditised market driven primarily by price, particularly for the flow of new money that generally seeks the most attractive rates available. However the bank failures of 2007 and 2008 and the limits of the FSCS appear to have led some customers to spread their savings across a number of different companies. Older deposit balances have traditionally subsidised the cost of new retail deposits, primarily reflecting customer inertia.

In the last few years, competition for UK retail deposits has increased as new participants, such as foreign banks, supermarkets, insurance/life assurance companies and direct online banking providers have entered the market by offering attractive rates of interest. These new entrants have caused the cost of attracting new retail deposits to increase for existing players in the market and have impacted the flow of new retail deposits. The 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.

The Issuer believes that increased consumer awareness driven by the press and increased competition has created potentially greater volatility of retail deposit balances both between different organisations and between different accounts within organisations. This, in turn, has resulted in a reduction in the differential between rates paid to existing and new balances as customers transfer to high rate accounts and organisations aim to retain existing balances. In 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 the Issuer's deposit balances grew by £6.3 billion in the financial year ended 4 April 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

### European Union Legislation

The framework for supervision and regulation of banking and financial services in the United Kingdom has been, and continues to be, heavily influenced by European Union legislation. The Basel III reform package (a regulatory capital and liquidity framework approved by the Basel Committee on Banking Supervision (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 27 June 2013. The CRR establishes a single set of harmonised 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 European Union 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 1 January, 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 European Union and Norway, Iceland and Liechtenstein, commonly known as the European Economic Area (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. The Issuer's local regulators are the PRA and the FCA. For further information about regulation in the United Kingdom 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 31 March 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 28 January 2014. Member states were required to implement the Mortgage Directive into national law by 21 March 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 21 March 2016 through the Mortgage Credit Directive Order 2015 (SI 2015/910) which was made on 25 March 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 Government's 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 news 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 the Issuer's mortgage business and operations.

**UK Regulation**

The UK Financial Services Act 2012 amended certain existing legislation including the FSMA 2000, the Building Societies Act 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 the FSMA 2000 which provide for, *inter alia*, the ring-fencing of vital banking services from international and investment banking services, measures on loss absorbency and depositor preference and proposals for enhancing competition in the banking sector. Certain aspects of such measures entered into force on 1 January 2015 although the full ring-fencing regime will not apply until 2019. Further, the UK Government has carved building societies out of the proposed ring-fencing legislation and, instead, reserves the power to amend the Building Societies Act to bring building societies legislation into line with the proposed ring-fencing requirements. The subsection below entitled "*The 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 1 January 2019. The proposals support the resolvability and resilience of building societies and banks in seeking to ensure critical shared services are organised to facilitate continuity in the event of failure.

On 1 January 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 Building Societies Act**

The main piece of legislation regulating building societies is the Building Societies Act. The Building Societies Act governs the creation, authorisation and management of building societies. The Issuer is regulated by the FCA in relation to conduct of business matters and by the PRA in relation to prudential requirements. With the introduction of the FSMA 2000, certain sections of the Building Societies Act were repealed. However, a substantial part of the 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 Building Societies Act has been amended and supplemented since its introduction by secondary legislation. For further information on the reforms under the FSMA 2000, see the subsection below entitled "*–Financial Services and Markets Act 2000*."

On 6 July 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 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, modernising changes to the 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 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 authorised under the FSMA 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 26 March 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 the Issuer's compliance with these requirements.

*Nature of Membership*

The members of a building society fall into two categories. The first category consists of investing or "shareholding" members. Shareholding members are individuals who have made a deposit (also referred to as an "**investment**") in a share account with a building society or who hold deferred shares in the society, and bodies corporate which hold deferred shares. In this Base Prospectus Nationwide refers 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 Nationwide's 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 authorisation. 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 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 7 April 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 Building Societies Act in specified circumstances to facilitate the provision of relevant financial assistance (including the giving of guarantees or indemnities or any other kind of financial assistance (actual or contingent)) by certain 'qualifying institutions'. Qualifying institutions for this purpose include HM Treasury, the Bank of England, another central bank of a Member State of the EEA, the

European Central Bank, or any person acting for or on behalf of any of such institution or providing financial assistance to a building society on the basis of financial assistance received from such an institution. Most significantly, the Financial Assistance Order permits any qualifying institution to provide such assistance without it counting for the purpose of the 50 % limit on the building society's non-member funding and the Financial Assistance Order also modifies the application of the purpose test and the lending limit.

*Nature of Capital*

UK retail member deposits are classified as shares in a building society's balance 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 recognised by the FSA (and have also now been recognised 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 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.

*Demutualisation*

The 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 favour of a borrowing members' resolution to convert. On a demutualisation as a result of a takeover by an existing bank or other company, the requirements would be similar except that 50% of shareholding members qualified to vote (or shareholding members representing 90% by value of the society's shares) must actually vote in favour of the requisite shareholding members' resolution.

*Mutual society transfers*

The 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 favourable than those enjoyed by existing members of the holding mutual (or such parent undertaking, as the case may be).

A transfer of business to a subsidiary of another mutual society requires approval by members and confirmation by the PRA. The member approval thresholds require a shareholding members' resolution to be passed by a minimum of 75% of shareholding members qualified to vote and voting on the resolution and a borrowing members' resolution to be passed by more than 50% of borrowing members qualified to vote and voting on the resolution.

*Directed transfers*

The 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 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-authorised persons.

The PRA supervises and regulates financial institutions, including building societies, on an ongoing basis by continually assessing their risk profile and capacity to manage and control risks. If the PRA finds that a financial institution has failed to comply with the requirements under the FSMA 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 FSMA 2000, and from 1 April 2014, is responsible for supervision of consumer credit regulation and superintendence and enforcement of the Consumer Credit Act 1974, as amended.

As set out below, the CMA also enjoys certain enforcement powers under the UK financial services regime.

***The Competition and Markets Authority***

The CMA is established under the Enterprise and Regulatory Reform Act 2013 as the UK's authority responsible for ensuring that competition and markets work well for consumers. The CMA and other bodies may enforce consumer legislation (including the UTCCR) under the Enterprise Act 2002 by:

- seeking an informal undertaking, or a formal undertaking, from a business; or
- seeking a court enforcement order against a business.

The CMA will also have powers to bring criminal proceedings under the CPUTR.

***Authorisation under the Financial Services and Markets Act 2000***

The FSMA 2000 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). The Issuer is authorised for, among other things, deposit-taking and mortgage activities, and are authorised for certain investment activities. The Issuer is also deemed to be authorised for various consumer credit activities. The FSMA 2000 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 2000, 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 31 October 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 under the section entitled "*Mortgage Directive*" below.

The CCA has traditionally regulated most unsecured and second charge credit within the definition of "regulated agreement." From 1 April 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 6 April 2008, or before 31 October 2008 in the case of buy-to-let mortgages satisfying prescribed conditions. Buy-to-let mortgages entered into on or after 31 October 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 2000 (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 2000 as to authorisation or Financial Promotions are contravened (by credit brokers as well as lenders like the Issuer), 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 authorised firm (such as the Issuer) 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 6 April 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 through the Mortgage Credit Directive Order 2015 (SI 2015/910).

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 repossessions (MCOB 13). General conduct of business standards will also apply (MCOB 2). This process is subject to detailed transitional provisions that are intended to retain certain customer protections in CONC and the CCA that are not contained within MCOB.

Any further changes in the legislative or regulatory framework for mortgage regulation, including as a result of 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 the Issuer's 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 FSMA 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 (31 December 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 3 July, 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 1 January 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 the Issuer's Business— The Issuer is required to pay levies under the Financial Services Compensation Scheme and is exposed to future increases of such levies, which might impact the Issuer's profits.*"

***Financial Ombudsman Service***

The FSMA 2000 established the Financial Ombudsman Service, 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 Financial Ombudsman Service 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 Financial Ombudsman Service is £150,000 plus interest and costs. The Financial Ombudsman Service may also make directions awards, which direct the business to take such steps as the Financial Ombudsman Service 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 1 July 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 1 April 2014, and is the CMA from 1 April 2014. The qualifying body in relation to regulated mortgage contracts and mortgage loans originated by lenders authorised under the FSMA 2000 was the Financial Services Authority before 1 April 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 1 October 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 31 October 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 2000, 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:

(c) 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;

(d) 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

(e) any security is treated as never having had effect for the cancelled agreement.

If a significant portion of the Issuer's 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 11 May 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 26 May 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 1 October 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 FSMA 2000. For example, MCOB rules for regulated mortgage contracts from 25 June 2010 prevent the lender from (a) repossessing the mortgaged property unless all other reasonable attempts to resolve the position have failed, which include considering whether it is appropriate to offer an extension of 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 12 June 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 Nationwide to identify and verify the identity and address of customers opening accounts with the Issuer, 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 11 April 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 31 July 2012 the European Commission published a paper summarising the responses to the report published on 11 April 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 5 February 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 25 June 2015 and is to be implemented by 26 June 2017.

The UK Data Protection Act 1998 regulates the processing of data relating to individual customers. The Issuer participates in the unclaimed assets scheme established under the Dormant Bank and Building Society Accounts Act 2008. The purpose of this scheme is to enable money in dormant bank and building society accounts (i.e. balances in accounts that have been inactive or dormant for 15 years or more) to be distributed for the benefit of the community, while protecting the rights of customers to reclaim their money.

On 1 November 2009, the 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 1 November 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 1 April 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 29 March 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, Nationwide's particular sector in that market or specifically in relation to Nationwide. Any such action or developments or compliance costs may have a material adverse effect on Nationwide and its respective businesses and operations.

## EXCHANGE CONTROLS AND OTHER LIMITATIONS AFFECTING COVERED BONDHOLDERS

Subject to the withholding tax requirements set out under the section entitled "*UK Taxation*", there are currently no UK laws, decrees or regulations that would reduce the payment by the Issuer of interest or other payments to holders of Covered Bonds who are neither residents of, nor trading in, the United Kingdom. For further discussion, see the section entitled "*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 Covered Bonds or to vote, when entitled to do so.

## THE ISSUER

### Overview

We are a building society, incorporated in England and Wales under the Building Societies Act 1986, as amended, and authorised 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 at 4 April 2016. We are the second largest residential mortgage lender in the United Kingdom and the second largest UK savings provider (as calculated by Nationwide based on Bank of England 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 organisation, 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 organisations.

Profits on ordinary activities after tax for the year ended 4 April 2016 and 4 April 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 4 April 2016.

### History and Development

Building societies have existed in the United Kingdom for over 200 years. From the outset, they were community-based, cooperative organisations created to help people purchase homes. The main characteristic of building societies is their mutual status, meaning that they are owned by their members, who are primarily retail savings customers and residential mortgage customers. Our origins go back to the Northampton

Freehold Land Society, which was founded in 1848. Over time, this entity merged with similar organisations to create Nationwide Building Society.

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 organisation or demutualised and transferred their businesses to existing or specially formed banks. As a result, the number of building societies in the United Kingdom has fallen 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 demutualise and no subsequent motion to demutualise has since been proposed at a general meeting of the Society. However, it is possible that another motion to demutualise could be proposed and voted upon at a future general meeting.

In 1997, when many of our competitors that were building societies demutualised, 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 demutualise 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 demutualisation.

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 Derbyshire Building Society and Cheshire Building Society in December 2008. In March and June 2009 we also acquired selected assets and liabilities of Dunfermline Building Society. In addition, Nationwide opened its first branch in the Republic of Ireland in March 2009. We believe these developments have added value to Nationwide, improved our distribution footprint and helped to grow the membership and are a testament to the strength of Nationwide and our ability to provide support to other building societies.

**Strategy**

Our vision is to be the first choice for financial services, and to achieve this, Nationwide's 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 Nationwide 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 Nationwide Group's financial performance framework which targets optimal pre-tax underlying profits in a range of £1 billon to £1.5 billion.

**Exemplar organisation**

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 4 April 2016, we were the second largest mortgage lender in the United Kingdom (as measured by total loans outstanding) (as calculated by Nationwide based on Bank of England data). As at 4 April 2016, our total prime and specialist residential mortgage lending amounted to £162.2 billion (£152.9 billion as at 4 April 2015). Our residential mortgages are generally for terms of 20 to 30 years. While many customers remain with Nationwide 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 Nationwide generally retains 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 (**GDP**) distribution in the United Kingdom. Below is a table showing the geographical distribution of our UK residential mortgage loans as at 4 April 2016:

| | **% of UK residential mortgage lending to individuals as at 4 April 2016** |
|---|---|
| **Region** | |
| Greater London | 33% |
| Central England | 18% |
| Northern England | 16% |
| South East England (excluding London) | 12% |
| South-West England | 9% |
| Scotland | 7% |
| Wales and Northern Ireland | 5% |
| **Total** | **100%** |

(1) Source: CACI Limited

We offer fixed rate and tracker rate mortgages. These products establish a set rate or set methodology for determining a variable rate for a set term, after which the rate reverts to one of our two general variable rates. Our fixed-rate products currently offer a term of two, three, four, five or ten years, but we have from time to time offered longer fixed terms, including 25 years. Our tracker rate products bear interest during the set term (currently two or three years) at a variable rate that is a fixed percentage above the Bank of England base rate. After the end of the set fixed rate or tracker period, the interest rate reverts to either our base mortgage rate (if the mortgage was originated on or before 29 April 2009) or our standard mortgage rate (**SMR**) (if the mortgage was originated on or after 30 April 2009). Both our base mortgage rate and our standard mortgage rate are variable rates set at our discretion, except that our base mortgage rate is guaranteed not to be more than 2% above the Bank of England base rate.

To reduce the costs associated with early repayment of mortgages and to recover a portion of the costs of mortgage incentives, we impose early repayment charges on some products. The early repayment charges generally apply for repayments 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. The Nationwide Group is committed to supporting the housing market, and first time buyers in particular. Our gross and net market shares as at 4 April 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 4 April 2015. The LTV profile of new lending, weighted by value, remained at 69% (4 April 2015: 69%). The indexed LTV for the whole residential portfolio is marginally lower at 55% (4 April 2015: 56%) on a value basis attributable to the increase in house prices over the year.

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

The following table sets forth a breakdown of our loans in arrears:

| | **Prime and specialist residential and lending as at 4 April 2016** *(percentage)* |
|---|---|
| **Arrears** | |
| 3-6 months | 0.22% |
| 6-12 months | 0.14% |
| Over 12 months | 0.09% |

We utilise an automated credit scoring system to assist in minimising 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* ".

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 4 April 2016 with 72% to experienced buyers (compared to 26% of residential mortgage advances to first-time buyers and 74% to experienced buyers for the year ended 4 April 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 4 April 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 the Nationwide Group having withdrawn from the self-certified lending market in 2009. A breakdown of our specialist UK residential mortgage lending outstanding balances as at 4 April 2016 is shown in the table below:

| | % of specialist UK residential mortgage lending to individuals as at 4 April 2016 |
|---|---|
| Buy-to-let | 89% |
| Self-certified | 7% |
| Near prime | 3% |
| Sub prime | 1% |
| **Total** | **100%** |

The Mortgage Works (**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 (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 favourable 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 4 April 2016 (4 April 2015: 1.531.12%), which compares favourably to the overall industry measure (*Source:* Council of Mortgage Lenders*)*, that is inclusive of prime lending, of 1.04% as at 4 April 2016 (4 April 2015: 1.30%).

***Commercial Secured Lending***

We engage in commercial secured lending, which as at 4 April 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 4 April 2016 were as follows:

| | As at 4 April 2016 | |
|---|---|---|
| | £ billions | % of total commercial loans |
| Commercial real estate | 3.0 | 25% |
| Registered social landlords | 7.6 | 65% |
| Project Finance | 1.2 | 10% |
| **Total** | **11.8** | **100%** |

Loans made to 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 Nationwide Group has never suffered any losses on lending in these markets and there are currently no arrears of three months or more.

The Nationwide 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 4 April 2016 and 2% of our total loan assets as at 4 April 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 4 April 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 4 April 2015. UK retail member deposits represented 66.4% of our total liabilities and reserves as at 4 April 2016.

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

We believe that the primary determinant for attracting retail savings is the interest rate offered to savers. As a mutual organisation, 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 cheque and day-to-day transactional product. Holders of FlexAccounts may be eligible for ATM cards, cheque 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 authorised overdrafts and at a higher rate for

unauthorised 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 remains stable in consumer borrowing with overall balances at 4 April 2016 of £1.7 billion (4 April 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 4 April 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 organisations. 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 4 April 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 section entitled "*Financial Risk Management*" for further details of risk management.

The Nationwide Group’s liquidity and investment portfolio on the balance sheet at 4 April 2016 of £23.1 billion (compared to 4 April 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 multi-lateral 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 4 April 2015: £11.0 billion) is a consequence of liquidity management planning, which saw an increase in other central bank eligibility 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 4 April 2016 from £39.2 billion as at 4 April 2015, representing a wholesale funding ratio of 24.8% (compared to 23.3% as at 4 April 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 programmes in place so that we can meet our short-term and long-term funding needs, including:

- Euro certificate of deposit and commercial paper programme;
- U.S. commercial paper programme;
- French commercial paper programme;
- Euro medium-term note programme;
- U.S. medium-term note programme;
- Covered Bond programme; 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 4 April 2016, down from £75 million for the year ended 4 April 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 31 January 2008, and as a result we no longer underwrite our own life assurance products. As part of our agreement, we distribute insurance products of Legal & General. We also have 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 financial year ended 4 April 2016 and the year ended 4 April 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 centres;
- 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 of 4 April 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 utilise 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 organisational structures and meet consumer expectations of digital banking.

***Call Centres***

Our telephone call centres 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 4 April 2016, including some placed in retail stores, railway stations, petrol 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 4 April 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 4 April 2016, 2015 and 2014, respectively:

| **Average number of employees** | **For the year ended 4 April,** | | |
|---|---|---|---|
| | **2016** | **2015** | **2014** |
| Full-time | 14,190 | 13,667 | 13,172 |
| Part-time | 3,919 | 3,955 | 4,118 |
| Total | **18,109** | **17,622** | **17,290** |

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 4 April 2016 are set out below:

| **100% held subsidiary undertakings** | Nature of business |
|---|---|
| Nationwide Syndications Limited | Syndicated lending |
| The Mortgage Works (UK) plc[(1)] | Centralised mortgage lender |

| **100% held subsidiary undertakings** | Nature of business |
|---|---|
| Derbyshire Home Loans Limited(1) | Centralised mortgage lender |
| E-Mex Home Funding Limited(1) | Centralised mortgage lender |
| UCB Home Loans Corporation Limited (1) | Centralised 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.

Nationwide has interests in a number of entities which give rise to the risks and rewards that are in substance no different from if they were subsidiary undertakings. As a consequence, these entities are consolidated in our accounts.

The interests of Nationwide in these principal entities as at 4 April 2016 are set out below:

| **Other Nationwide Group undertakings** | **Nature of business** | **Country of registration** | **Country of operation** |
|---|---|---|---|
| Nationwide Covered Bonds LLP | Mortgage acquisition and guarantor of covered bonds | England and Wales | UK |
| Silverstone Master Issuer plc | Funding vehicle | England and Wales | UK |
| Silverstone Funding No.1 Limited | Funding vehicle | England and Wales | UK |
| 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-specialised buildings which may be owned or leased, as well as our head office/administration centres (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**

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 totalled 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 4 April 2016, the Nationwide Group held a provision of £84 million in respect of the interest relating to scheme years 2015/16 and 2016/17. As at 4 April 2015 the Nationwide Group 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 19 July 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 18 November 2015) implement a gradual reduction in bank levy rates from 1 January 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 1 January 2016. In addition, it is proposed that from 1 January 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.

Levy rates have been announced as follows:

| Period | Rates | |
|---|---|---|
| | Short-term liabilities | Long-term liabilities |
| 1 January 2011 to 28 February 2011 | 0.05% | 0.025% |
| 1 March 2011 to 30 April 2011 | 0.1% | 0.05% |
| 1 May 2011 to 31 December 2011 | 0.075% | 0.0375% |
| 1 January 2012 to 31 December 2012 | 0.088% | 0.044% |
| 1 January 2013 to 31 December 2013 | 0.130% | 0.065% |
| 1 January 2014 to 31 March 2015 | 0.156% | 0.078% |
| 1 April 2015 to 31 December 2015 | 0.210% | 0.105% |
| 1 January 2016 to 31 December 2016 | 0.18% | 0.09% |
| 1 January 2017 to 31 December, 2017 | 0.17% | 0.085% |
| 1 January 2018 to 31 December 2018 | 0.16% | 0.08% |
| 1 January 2019 to 31 December 2019 | 0.15% | 0.075% |
| 1 January 2020 to 31 December 2020 | 0.14% | 0.07% |
| Any time on or after 1 January 2021 | 0.10% | 0.05% |

## THE LLP

### Introduction

The LLP was incorporated in England and Wales on 25 June 2005 as a limited liability partnership (registered number 313878) with limited liability under the LLPA 2000 by Nationwide and the Liquidation Member as its Members. The principal place of business of the LLP is at Nationwide House, Pipers Way, Swindon SN38 1NW (telephone number: +44(0) 1793 656363). The LLP has no subsidiaries.

### Principal Activities

The principal objects of the LLP are set out in the LLP Deed and include, *inter alia*, the ability to carry on the business of acquiring the Loans and their Related Security pursuant to the terms of the Mortgage Sale Agreement with a view to profit and to do all such things as are incidental or conducive to the carrying on of that business and to borrow money.

The LLP has not engaged since its incorporation, and will not engage whilst the Covered Bonds or any Term Advance remains outstanding, in any material activities other than activities incidental to its incorporation under the LLPA 2000, activities contemplated under the Transaction Documents to which it is or will be a party, obtaining a standard licence under the CCA, filing a notification under the Data Protection Act 1998 and other matters which are incidental or ancillary to the foregoing.

### Members

The members of the LLP as at the date of this Base Prospectus are and their principal offices are:

| Name | Principal Office |
|---|---|
| Nationwide | Nationwide House<br>Pipers Way<br>Swindon SN38 1NW<br>United Kingdom |
| Liquidation Member | c/o Wilmington Trust SP Services (London) Limited<br>Third Floor, 1 King's Arms Yard<br>London EC2R 7AF |

The LLP has no employees.

### Directors of the Members

The following table sets out the directors of the Liquidation Member and their respective business addresses and occupations.

| Name | Business Address | Business Occupation |
|---|---|---|
| Mark Howard Filer | Third Floor, 1 King's Arms Yard, London, EC2R 7AF | Company Director |
| Mignon Clarke | Third Floor, 1 King's Arms Yard, London, EC2R 7AF | Company Director |
| Wilmington Trust SP Services (London) Limited | Third Floor, 1 King's Arms Yard, London, EC2R 7AF | |

The directors of Nationwide and their respective business addresses are set out under "*Management – Directors*" on pages 161 to 163 above.

No potential conflicts of interest exist between any duties to the LLP of the Directors of the Members, as described above, and their private interests or other duties in respect of their management roles.

**Directors of the Corporate Director of the LLP (Wilmington Trust SP Services (London) Limited)**

| Name | Business Address | Business Occupation |
|---|---|---|
| John Merrill Beeson | Third Floor, 1 King`s Arms Yard, London EC2R 7AF | Company Director |
| William James Farrell II | Third Floor, 1 King`s Arms Yard, London EC2R 7AF | Company Director |
| Mark Howard Filer | Third Floor, 1 King`s Arms Yard, London EC2R 7AF | Company Director |
| Nicolas Patch | Third Floor, 1 King`s Arms Yard, London EC2R 7AF | Company Director |
| Alan Geraghty | Third Floor, 1 King`s Arms Yard, London EC2R 7AF | Company Director |

No potential conflicts of interest exist between any duties to the Corporate Director of the LLP of the Directors of the Corporate Director of the LLP, as described above, and their private interests or other duties in respect of their management roles. A9.9.2

The financial statements of the LLP for the year ended 4 April 2016 have been audited by the LLP's auditors and have been prepared in accordance with generally accepted accounting principles under IFRS.

The LLP's audited accounts for the year ended 4 April 2016 are incorporated by reference in this Base Prospectus.

## SUMMARY OF THE PRINCIPAL DOCUMENTS

### Trust Deed

The Trust Deed, made between the Issuer, the LLP, the Bond Trustee and the Security Trustee, is the principal agreement governing the Covered Bonds. The Trust Deed contains provisions relating to, *inter alia*:

- the constitution of the Covered Bonds and the terms and conditions of the Covered Bonds (as more fully set out under Terms and Conditions of the Covered Bonds above);
- the covenants of the Issuer and the LLP;
- the terms of the Covered Bond Guarantee (as described below);
- the terms on which the Bond Trustee may or shall consent (or direct the Security Trustee to consent) to certain modifications or waivers to the Transaction Documents and the Covered Bonds and otherwise to certain Transaction Documents only for the purposes of an Additional Account Bank Required Amendment, an EMIR Amendment, a New Rating Criteria Amendment, a New Regulatory Requirements Amendment, a Rating Event Amendment or a New Rating Counterparty Criteria Amendment, for further information see Condition 14;
- the enforcement procedures relating to the Covered Bonds and the Covered Bond Guarantee; and
- the appointment, powers and responsibilities of the Bond Trustee and the circumstances in which the Bond Trustee may resign or retire or be removed.

***Covered Bond Guarantee***

Under the terms of the Covered Bond Guarantee, if the Issuer defaults in the payment on the due date of any moneys due and payable under or pursuant to the Trust Deed or the Covered Bonds or Coupons, if any other Issuer Event of Default occurs (other than by reason of non-payment) or if an LLP Event of Default occurs, the LLP has agreed (subject as described below) to pay or procure to be paid (following service of an Issuer Acceleration Notice and Notice to Pay or, if applicable, an LLP Acceleration Notice) unconditionally and irrevocably to or to the order of the Bond Trustee (for the benefit of the holders of the Covered Bonds), an amount equal to that portion of the Guaranteed Amounts which shall become Due for Payment but would otherwise be unpaid, as of any Original Due for Payment Date or, if applicable, Extended Due for Payment Date, by the Issuer. Under the Covered Bond Guarantee, the Guaranteed Amounts will become due and payable on any earlier date on which an LLP Acceleration Notice is served.

Following the occurrence of an Issuer Event of Default and after the Covered Bonds have been declared due and payable by the Bond Trustee as against the Issuer, following service of an Issuer Acceleration Notice, the Bond Trustee will serve a Notice to Pay on the LLP. Payment by the LLP of the Guaranteed Amounts pursuant to the Covered Bond Guarantee will be made on the later of (a) the day which is two Business Days following service of a Notice to Pay on the LLP or (b) the day on which the Guaranteed Amounts are otherwise Due for Payment.

All payments of Guaranteed Amounts by or on behalf of the LLP will be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or other governmental charges of whatever nature, unless the withholding or deduction of such taxes, assessments or other governmental charges are required by law or regulation or administrative practice of the United Kingdom or any political subdivision thereof or any authority therein or thereof having the power to tax. If any such withholding or deduction is required, the LLP will pay the Guaranteed Amounts net of such withholding or

deduction and shall account to the appropriate tax authority for the amount required to be withheld or deducted. The LLP will not be obliged to pay any amount to the Bond Trustee or any holder of Covered Bonds in respect of the amount of such withholding or deduction.

Under the terms of the Covered Bond Guarantee, the LLP agrees that its obligations under the Covered Bond Guarantee shall be as principal debtor and not merely as surety and shall be absolute and unconditional, irrespective of, and unaffected by, any invalidity, irregularity or unenforceability of, or defect in, any provisions of the Trust Deed or the Covered Bonds or Coupons or the absence of any action to enforce the same or the waiver, modification or consent by the Bond Trustee or any of the holders of the Covered Bonds or Couponholders in respect of any provisions of the same or the obtaining of any judgment or decree against the Issuer or any action to enforce the same or any other circumstances which might otherwise constitute a legal or equitable discharge or defence of a guarantor.

Subject to the grace period specified in Condition 9.2 (LLP Events of Default) of the Conditions, failure by the LLP to pay the Guaranteed Amounts when Due for Payment will result in an LLP Event of Default.

The Trust Deed provides that the Excess Proceeds shall be paid by the Bond Trustee on behalf of the holders of the Covered Bonds of the relevant Series to the LLP for its own account, as soon as practicable, and shall be held by the LLP in a GIC Account or a Stand-by GIC Account, as applicable, and the Excess Proceeds shall thereafter form part of the Security and shall be used by the LLP in the same manner as all other moneys from time to time standing to the credit of any GIC Account. Any Excess Proceeds received by the Bond Trustee shall discharge *pro tanto* the obligations of the Issuer in respect of the Covered Bonds and Coupons. However, the obligations of the LLP under the Covered Bond Guarantee are (following service of an Issuer Acceleration Notice and Notice to Pay or, if earlier, service of an LLP Acceleration Notice) unconditional and irrevocable and the receipt by the Bond Trustee of any Excess Proceeds shall not reduce or discharge any of such obligations.

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

The Trust Deed and any non-contractual obligations arising out of or in connection with it are governed by English law.

**Intercompany Loan Agreement**

On each Issue Date, the Issuer will use the proceeds of the Covered Bonds issued under the Programme to lend on that date an amount equal to the Principal Amount Outstanding on the Issue Date of the issue of the related Covered Bonds to the LLP by way of a Term Advance pursuant to the Intercompany Loan Agreement. Each Term Advance will be made in the Specified Currency of the relevant Series or Tranche, as applicable, of the Covered Bonds, as set out in the applicable Final Terms, and will be swapped into Sterling pursuant to the relevant Covered Bond Swap Agreement. The Sterling Equivalent of each Term Advance will be used by the LLP (a) as consideration in part for the acquisition of Loans and their Related Security from the Seller pursuant to the terms of the Mortgage Sale Agreement, as described under – "*Mortgage Sale Agreement – Sale by the Seller of Loans and Related Security*" and/or (b) to invest in Substitution Assets in an amount not exceeding the prescribed limit in each case to the extent required to meet the requirements of Regulations 23 and 24(1)(a)(ii) of the RCB Regulations and the Asset Coverage Test and thereafter may be applied by the LLP: (i) as consideration in part for the acquisition of Loans and their Related Security from the Seller pursuant to the terms of the Mortgage Sale Agreement, as described under – "*Mortgage Sale Agreement – Sale by the Seller of Loans and Related Security*"; and/or (ii) to invest in Substitution Assets in an amount not exceeding the prescribed limit; and/or (iii) (subject to satisfying the Asset Coverage Test), to make a Capital Distribution to a Member; and or (iv) if an existing Series, or part of an existing Series, of Covered Bonds is being refinanced by such issue of Covered Bonds, to repay the Term Advance(s) corresponding to the Covered Bonds being so refinanced; and/or (v) to make a deposit in the GIC Account (including, without limitation, to fund the Reserve Fund to an amount not exceeding the

prescribed limit). Each Term Advance will bear interest at a rate of interest equal to the rate of interest payable on the corresponding Series or Tranche, as applicable, of Covered Bonds.

The Issuer will not be relying on repayment of any Term Advance in order to meet its repayment obligations under the Covered Bonds. The LLP will pay amounts due in respect of Term Advances(s) in accordance with the relevant Priorities of Payments. Prior to the service of an Asset Coverage Test Breach Notice (which has not been revoked) or a Notice to Pay on the LLP, amounts due in respect of each Term Advance will be paid by the LLP to, or as directed by, the Issuer on each LLP Payment Date, subject to paying all higher ranking amounts in the Pre-Acceleration Revenue Priority of Payments or, as applicable, the Pre-Acceleration Principal Priority of Payments. The Issuer may use the proceeds of the Term Advances to pay amounts due on the Covered Bonds. However, any failure by the LLP to pay any amounts due on the Term Advances will not affect the liability of the Issuer to pay the relevant amount due on the Covered Bonds. For so long as an Asset Coverage Test Breach Notice is outstanding and has not been revoked, the LLP may not borrow any new Term Advances (and the Issuer may not make any new Term Advances) under the Intercompany Loan Agreement.

The amounts owed by the LLP to the Issuer under the Term Advances will be reduced by (a) any amounts paid by the LLP under the terms of the Covered Bond Guarantee to repay the Covered Bonds (the proceeds of which were originally applied to make such Term Advances) and (b) the Principal Amount Outstanding of any Covered Bonds (the proceeds of which were originally applied to make such Term Advances) purchased by the LLP and cancelled in accordance with Condition 6.7 (Cancellation).

The Intercompany Loan Agreement and any non-contractual obligations arising out of or in connection with it are governed by English law.

**Mortgage Sale Agreement**

*The Seller*

Loans and their Related Security will be sold to the LLP from time to time pursuant to the terms of the Mortgage Sale Agreement entered into on the Initial Programme Date as amended and restated on 30 April 2008, 1 December 2008 and 18 December 2009 between Nationwide (in its capacity as Seller), the LLP and the Security Trustee.

*Sale by the Seller of Loans and Related Security*

The Portfolio will consist of Loans and their Related Security sold from time to time by the Seller to the LLP in accordance with the terms of the Mortgage Sale Agreement. The types of Loans forming part of the Portfolio will vary over time provided that, at the time the relevant Loans are sold to the LLP, the Eligibility Criteria (as described below) in respect of such Loans are met on the relevant Transfer Date. Accordingly, the Portfolio may, at any time, include Loans with characteristics that were not being offered to Borrowers on previous Transfer Dates.

Prior to the occurrence of an Issuer Event of Default or an LLP Event of Default, the LLP will acquire Loans and their Related Security from the Seller in the three circumstances described below.

(a) First, in relation to the issue of Covered Bonds from time to time in accordance with the Programme, the Issuer will make Term Advances to the LLP, the proceeds of which may be applied by the LLP to acquire Loans and their Related Security from the Seller. In exchange for the sale of the Loans and their Related Security to the LLP, the Seller will receive an amount equal to the True Balance of those Loans sold by it as at the Transfer Date, which will be satisfied by a combination of:

    (i) a cash payment to be made by the LLP from the proceeds of the relevant Term Advance and/or from Available Principal Receipts; and/or

(ii) the Seller being treated as having made a Capital Contribution in an amount equal to the difference between the True Balance of the Loans sold by the Seller as at the relevant Transfer Date and the cash payment (if any) made by the LLP; and

(iii) Deferred Consideration.

(b) Second, prior to service of an Asset Coverage Test Breach Notice on the LLP (which has not been revoked), the LLP will use the Available Principal Receipts to acquire New Loans and their Related Security from the Seller and/or Substitution Assets (in respect of any Substitution Assets, up to the prescribed limit) on each LLP Payment Date.

(c) Third, the LLP and the Seller are required to ensure that the Portfolio is maintained at all times in compliance with the Asset Coverage Test (as determined by the Cash Manager on each Calculation Date). If on any Calculation Date there is a breach of the Asset Coverage Test, the Seller will use all reasonable efforts to offer to sell sufficient New Loans and their Related Security to the LLP on or before the next Calculation Date in consideration of the Seller being treated as having made a Capital Contribution (in an amount equal to the True Balance of the New Loans) sold by the Seller as at the relevant Transfer Date and in consideration of the right to receive the Deferred Consideration.

If Selected Loans and their Related Security are sold by or on behalf of the LLP as described below under "*LLP Deed – Sale of Selected Loans and their Related Security following service of a Notice to Pay*", the obligations of the Seller insofar as they relate to those Selected Loans and their Related Security will cease to apply.

The Seller will also be required to repurchase Loans and their Related Security sold to the LLP in the circumstances described below under "— *Repurchase of Loans*".

*Eligibility Criteria*

The sale of Loans and their Related Security to the LLP will be subject to various conditions (the **Eligibility Criteria**) being satisfied on the relevant Transfer Date or in respect of Additional Loan Advances, on the next Calculation Date, including:

(a) no Issuer Event of Default or LLP Event of Default under the Transaction Documents shall have occurred which is continuing as at the relevant Transfer Date;

(b) the LLP, acting on the advice of the Cash Manager, is not aware, and could not reasonably be expected to be aware, that the purchase of the Loans and their Related Security would adversely affect the then current ratings by Moody's, S&P or Fitch of the Covered Bonds;

(c) the weighted average yield on the Loans in the Portfolio (including the New Loans) is at least 0.15% greater than LIBOR for one month Sterling deposits after taking into account (a) the average yield on the Loans and (b) the margins on the Interest Rate Swaps and (c) the average yield on any Substitution Assets held by the LLP;

(d) no Loan has a True Balance of more than £1,000,000;

(e) no Loan relates to a Property which is not a residential Property; and

(f) no Loan constitutes a New Loan Type, in respect of which no written confirmation has been received by the Security Trustee, and from each of the Rating Agencies in accordance with the terms of the Mortgage Sale Agreement, that such Loan may be sold to the LLP.

On the relevant Transfer Date, the Representations and Warranties (described below in "– *Representations and Warranties*") will be given by the Seller in respect of the Loans and their Related Security sold by the Seller to the LLP.

If the Seller accepts an application from or makes an offer (which is accepted) to a Borrower for a Product Switch or Additional Loan Advance, then if the Eligibility Criteria referred to in paragraphs (c), (d) and (e) above relating to the Loan subject to that Product Switch or Additional Loan Advance are not satisfied on the next following Calculation Date, the LLP will be entitled to rectify the relevant breach of those Eligibility Criteria by (in the event of a breach of the Eligibility Criteria in paragraphs (c), (d) and (e) above) requiring the Seller to repurchase the Loans subject to any Product Switch or Additional Loan Advance or (in the event of a breach of the Eligibility Criteria in paragraph (c) above) by requiring the Seller to transfer further Loans to the LLP in an amount sufficient to ensure that the Eligibility Criteria in paragraph (c) above is met.

*Transfer of Title to the Loans to the LLP*

The sale by the Seller to the LLP of English Loans and Northern Irish Loans and their Related Security will take effect by way of an equitable assignment. The sale by the Seller to the LLP of Scottish Loans and their Related Security will be given effect by way of Scottish Declarations of Trust under which the beneficial interest in the Scottish Loans and their Related Security will be transferred to the LLP. In relation to Scottish Loans, references in this document to a sale of Loans or to Loans having been sold are to be read as references to the making of such Scottish Declarations of Trust. Such beneficial interest (as opposed to the legal title) cannot be registered or recorded in the Registers of Scotland. As a result, legal title to Loans and their Related Security will remain with the Seller until legal assignments or assignations (as appropriate) are delivered by the Seller to the LLP and notice of the sale is given by the Seller to the Borrowers. Legal assignment or assignation (as appropriate) of the Loans and their Related Security (including, where appropriate, their registration or recording in the relevant property register) to the LLP will be deferred and will only take place in the limited circumstances described below.

Legal assignment or assignation (as appropriate) of the Loans and their Related Security (or, where specified, the Selected Loans and their Related Security) to the LLP will be completed on or before the 20th London Business Day after the earliest of the following:

(a) either (A) the occurrence of an Issuer Event of Default under Condition 9.1(a) to (g) and service on Nationwide of an Issuer Acceleration Notice and the service on the LLP of a Notice to Pay or (B) if the Bond Trustee has previously served on the Issuer an Issuer Acceleration Notice and served on the LLP a Notice to Pay in respect of an Issuer Event of Default under Condition 9.1(h), then the occurrence of any other Issuer Event of Default;

(b) a written direction is received by Nationwide from the FCA requiring the transfer of all of the engagements or the business of Nationwide to another entity in circumstances where the rights of borrowing members of Nationwide will cease (provided that, where approval of the transfer from the members of Nationwide is required by either the FCA or applicable law, such approval is obtained);

(c) in respect of Selected Loans only, at the request of the LLP following the acceptance of any offer to sell the Selected Loans and their Related Security to any person who is not the Seller;

(d) the Seller and/or the LLP being required (a) by law; (b) by an order of a court of competent jurisdiction; (c) by a regulatory authority which has jurisdiction over the Seller; or (d) by any organisation of which the Seller is a member, or whose members comprise, but are not necessarily limited to, mortgage lenders and with whose instructions it is customary for the Seller to comply, to perfect legal title to the Loans; and

(e) the Seller requesting a transfer by way of assignment or assignation (as appropriate) by giving notice in writing to the LLP and the Security Trustee.

Pending completion of the transfer, the right of the LLP to exercise the powers of the legal owner of, or (in Scotland) the heritable creditor under, the Mortgages will be secured by, or (in Scotland) supported by, an irrevocable power of attorney granted by the Seller in favour of the LLP and the Security Trustee.

Any Title Deeds and Loan Files relating to the Loans in the Portfolio will be held by or to the order of the Seller or the Servicer, as the case may be, or by solicitors, licensed conveyancers or (in Scotland) qualified conveyancers acting for the Seller in connection with the creation of the Loans and their Related Security. The Seller or the Servicer, as the case may be, will undertake that all the Title Deeds and Loan Files relating to the Loans in the Portfolio which are at any time in their possession or under their control or held to their order will be held to the order of the Security Trustee or as the Security Trustee may direct.

*Representations and warranties*

None of the LLP, the Security Trustee or the Bond Trustee has made or has caused to be made on its behalf any enquiries, searches or investigations in respect of the Loans and their Related Security to be sold to the LLP. Instead, each is relying entirely on the Representations and Warranties by the Seller contained in the Mortgage Sale Agreement. The parties to the Mortgage Sale Agreement may, with the prior written consent of the Security Trustee (which shall be given if the Rating Agencies have confirmed it would not adversely affect the then current ratings of the Covered Bonds), amend the Representations and Warranties in the Mortgage Sale Agreement. The material Representations and Warranties are as follows and are given on the relevant Transfer Date in respect of the Loans and Related Security to be sold to the LLP only on that date and on the Calculation Date following the making of any Additional Loan Advance or Product Switch in respect of the Loan to which the Additional Loan Advance or Product Switch relates only:

- each Loan was originated or purchased by the Seller in the ordinary course of business not less than three calendar months prior to the relevant Transfer Date and was denominated in pounds Sterling upon origination or acquisition (or was denominated in euro upon origination or acquisition if the euro has been adopted as the lawful currency of the United Kingdom) and in respect of Loans purchased by the Seller (a) confirmation has been received from each of the Rating Agencies that the purchase of such Loans by the Seller would not adversely affect the then current ratings by Moody's, S&P or Fitch of the Covered Bonds, and (b) the amount of Loans purchased by the Seller does not exceed 20% of the Portfolio;

- the first two monthly payments due in respect of each Loan has been paid by the relevant Borrower;

- no Loan has a True Balance of more than £1,000,000;

- each Loan has a remaining term of less than 50 years as at the relevant Transfer Date;

- prior to the making of each advance under a Loan, the Lending Criteria and all preconditions to the making of any Loan were satisfied in all material respects subject only to exceptions and waivers as would be acceptable to a Reasonable, Prudent Mortgage Lender;

- the Lending Criteria are consistent with the criteria that would be used by a Reasonable, Prudent Mortgage Lender;

- all of the Borrowers are individuals and were aged 18 years or older at the date he or she executed the relevant Mortgage;

- subject to, in relation to a Right to Buy Loan, any charge or security which may arise or be granted in favour of the relevant local authority (or in Northern Ireland, the Northern Ireland Housing Executive) which has not been postponed, the whole of the True Balance on each Loan is secured by a Mortgage over residential property;

- subject to, in relation to a Right to Buy Loan, any charge or security which may arise or be granted in favour of the relevant local authority (or in Northern Ireland, the Northern Ireland Housing Executive) which has not been postponed, and subject to, in certain appropriate cases, the completion of an application for registration at the Land Registry, the Registers of Scotland or the Registers of Northern Ireland, each Mortgage constitutes a valid and subsisting first charge by way of legal mortgage or (in Scotland) first ranking standard security over the relevant Property or (in Northern Ireland) a valid and subsisting first charge (in relation to registered land) or a valid and subsisting mortgage by way of demise or sub-demise (in relation to unregistered land) except in relation to Flexible Advances linked to Loans entered into before 1 September 2002 in which case the Mortgage constitutes a valid and subsisting second ranking charge by way of legal mortgage or (in Scotland) second ranking standard security over the relevant Property or in (in Northern Ireland) a valid and subsisting second charge (in relation to registered land) or a valid and subsisting mortgage by way of demise or sub-demise (in relation to unregistered land) behind the Mortgage securing the balance of the relevant Loan;

- the True Balance on each Loan and its Related Security constitutes a legal, valid, binding and enforceable debt due to the Seller from the relevant Borrower and the terms of each Loan and its Related Security constitute valid and binding obligations of the Borrower enforceable in accordance with their terms except that enforceability may be limited by bankruptcy, insolvency or other similar laws of general applicability affecting the enforcement of creditors' rights generally and the court's discretion in relation to equitable remedies;

- none of the terms of the Loans or their Related Security are not binding by virtue of their being unfair pursuant to the Unfair Terms in Consumer Contracts Regulations 1994 or (as the case may be) the UTCCR;

- all approvals, consents and other steps necessary to permit a legal or equitable or beneficial transfer, or a transfer of servicing or other disposal as and in the manner contemplated by the Transaction Documents from the Seller to the LLP, of the Loans and their related Mortgages to be sold under the Mortgage Sale Agreement have been obtained or taken and there is no requirement in order for the transfer to be effective to obtain the consent of the Borrower before, on or after any equitable or beneficial transfer or before any legal transfer of the Loans and their related Mortgages and such transfer or disposal shall not give rise to any claim by the Borrower against the LLP, the Security Trustee or any of their successors in title or assigns;

- all of the Properties are located in England or Wales, Scotland or Northern Ireland;

- unless the Loan is a Loan Without Independent Valuation, not more than 12 months (or a longer period as may be acceptable to a Reasonable, Prudent Mortgage Lender) prior to the granting of each Mortgage, the Seller received a Valuation Report on the relevant Property (or another form of report concerning the valuation of the relevant Property as would be acceptable to a Reasonable, Prudent Mortgage Lender), the contents of which were such as would be acceptable to a Reasonable, Prudent Mortgage Lender;

- prior to the taking of each Mortgage (other than a remortgage), the Seller instructed its solicitor, licensed conveyancer or (in Scotland) qualified conveyancer to carry out an investigation of title to the relevant Property and to undertake other searches, investigations, enquiries and other actions on behalf of the Seller in accordance with the instructions which the Seller issued to the relevant solicitor, licensed conveyancer or (in Scotland) qualified conveyancer as are set out, in the case of English Loans, in the CML's Lenders' Handbook for England and Wales (or, for Mortgages taken before the CML's Lenders' Handbook for England and Wales was adopted in 1999, the Seller's standard form instructions to solicitors) and, in the case of Scottish Loans, the CML's Lenders' Handbook for Scotland (or, for Mortgages taken before the CML's Lenders' Handbook for Scotland

was adopted in 2000, the Seller's standard form instructions to solicitors), the CML's Lender's Handbook for Northern Ireland (or, for Mortgages taken before the CML's Lender's Handbook for Northern Ireland was adopted in 2003, the Seller's standard form instructions to solicitors) or other comparable or successor instructions and/or guidelines as may for the time being be in place, subject only to those variations as would be acceptable to a Reasonable, Prudent Mortgage Lender;

- buildings insurance cover for each Property is available under either: (a) a policy arranged by the Borrower or (b) in the case of leasehold property a policy arranged by the relevant landlord or (c) the Properties in Possession Policies;

- subject to registration or recording at the Land Registry or the Registers of Scotland or the Registers of Northern Ireland (as the case may be), the Seller has good title to, and is the absolute unencumbered legal and beneficial owner of, all property, interests, rights and benefits in relation to the Loans and Related Security agreed to be sold and/or assigned by the Seller to the LLP under the Mortgage Sale Agreement;

- the Seller has, since the making of each Loan, kept or procured the keeping of full and proper accounts, books and records as are necessary to show all material transactions, payments, receipts, proceedings and notices relating to such Loan;

- there are no governmental authorisations, approvals, licences or consents required as appropriate for the Seller to enter into or to perform its obligations under the Mortgage Sale Agreement or to make the Mortgage Sale Agreement legal, valid, binding, enforceable and admissible in evidence in a court in England and Wales which have not been obtained;

- each Loan and its Related Security will be "eligible property" for the purposes of Regulation 2 of the RCB Regulations;

- the rate of interest under each Loan is charged in accordance with the Standard Documentation, subject to the terms of any offer letter in relation thereto; and

- each Property is owner-occupied, or, where a Property is not owner-occupied, a Rating Agency Confirmation has been received.

If New Loan Types are to be sold to the LLP, then the Representations and Warranties in the Mortgage Sale Agreement will be modified as required to accommodate these New Loan Types. The prior consent of the holders of the Covered Bonds to the requisite amendments will not be required to be obtained. Notwithstanding the foregoing, the above representations and warranties will not apply in their entirety to Flexible Advances.

*Repurchase of Loans*

If the Seller receives a Repurchase Notice from the Cash Manager identifying a Loan or its Related Security in the Portfolio which does not, as at the relevant Transfer Date or relevant Calculation Date (in the case of an Additional Loan Advance), materially comply with the Representations and Warranties set out in the Mortgage Sale Agreement, then the Seller will be required to repurchase (a) any such Loan and its Related Security and (b) any other Loans (including any Flexible Advances) of the relevant Borrower and their Related Security that are included in the Portfolio. The repurchase price payable upon the repurchase of any Loan is an amount (not less than zero) equal to the True Balance thereof and expenses as at the relevant repurchase date. The repurchase proceeds received by the LLP will be applied (other than Accrued Interest and Arrears of Interest) in accordance with the Pre-Acceleration Principal Priority of Payments (see "*Cashflows*" below).

In addition to the foregoing circumstances, the Seller will also be required to repurchase a Loan or Loans and its or their Related Security sold by the Seller to the LLP where:

(a) an Additional Loan Advance made in respect of a Loan results in certain Eligibility Criteria being breached;

(b) a Product Switch occurs. In these circumstances, the Seller will be able to offer to sell the affected Loan back to the LLP; or

(c) a proposed Product Switch or Additional Loan Advance would result in the LLP being required to be regulated by the FCA by reason of it entering into a regulated mortgage contract. In these circumstances, if the Seller or the Borrower accepts an offer for the Product Switch, the Servicer or administrator (as the case may be) will notify the LLP and the Seller will be required to repurchase the affected Loan or Additional Loan Advance before the Product Switch takes place.

*Defaulted Loans*

If a Seller receives a Defaulted Loans Notice identifying any Defaulted Loan, then that Defaulted Loan will be attributed a reduced weighting in the calculation of the Asset Coverage Test and the Amortisation Test as at the relevant Calculation Date. In addition, the Seller may, at its option, repurchase a Defaulted Loan for an amount equal to its True Balance as at the date of repurchase.

*General ability to repurchase*

Prior to the occurrence of an Issuer Event of Default, the Seller may from time to time offer to repurchase a Loan and its Related Security from the LLP for a purchase price of not less than the aggregate True Balance of the relevant Loan. The LLP may accept such offer at its discretion.

*Right of Pre-emption*

Under the terms of the Mortgage Sale Agreement, the Seller has a right of pre-emption in respect of any sale, in whole or in part, of Selected Loans and their Related Security.

The LLP will serve on the Seller a Selected Loan Offer Notice offering to sell those Selected Loans and their Related Security for an offer price equal to the greater of the then True Balance of the Selected Loans and the Adjusted Required Redemption Amount, subject to the offer being accepted by the Seller within ten London Business Days. If an Issuer Event of Default has occurred but no liquidator or administrator has been appointed to the Seller, the Seller's right to accept the offer (and therefore its right of pre-emption) will be conditional upon the delivery by the Seller of a solvency certificate to the LLP and the Security Trustee. If the Seller rejects the LLP's offer or fails to accept it in accordance with the foregoing, the LLP will offer to sell the Selected Loans and their Related Security to other Purchasers (as described under "— *LLP Deed – Method of Sale of Selected Loans*", below).

If the Seller validly accepts the LLP's offer to sell the Selected Loans and their Related Security, the LLP will, within three London Business Days of such acceptance, serve a Selected Loan Repurchase Notice on the Seller. The Seller will sign and return a duplicate copy of the Selected Loan Repurchase Notice and will repurchase from the LLP free from the Security created by and pursuant to the Deed of Charge the relevant Selected Loans and their Related Security (and any other Loan secured or intended to be secured by that Related Security or any part of it) referred to in the relevant Selected Loan Repurchase Notice. Completion of the purchase of the Selected Loans and their Related Security by the Seller will take place on the LLP Payment Date after receipt of the Selected Loans Repurchase Notice(s) or such date as the LLP may direct in the Selected Loans Repurchase Notice (provided that such date is not later than the earlier to occur of the date which is (a) ten London Business Days after returning the Selected Loan Repurchase Notice to the LLP

and (b) the Final Maturity Date of, as applicable, the Hard Bullet Covered Bonds or the Earliest Maturing Covered Bonds).

For the purposes hereof:

**Required Redemption Amount** means, in respect of a Series of Covered Bonds, the amount calculated as follows:

| | | |
|---|---|---|
| the Principal Amount Outstanding of the relevant Series of Covered Bonds | X | (1+ Negative Carry Factor X (days to maturity of the relevant Series of Covered Bonds/365)) |

*Further drawings under Loans*

The Seller is solely responsible for funding all Additional Loan Advances and interest payments which would have been made by Borrowers but for Payment Holidays in respect of Loans sold by the Seller to the LLP, if any. The amount of the Seller's Capital Contribution will increase by the amount of the funded Additional Loan Advances and interest payments which would have been made by Borrowers but for Payment Holidays as set out in the LLP Deed.

*New Sellers*

In the future, any New Seller that wishes to sell loans and their Related Security to the LLP will accede to, *inter alia*, the Mortgage Sale Agreement. The sale of New Loans and their Related Security by New Sellers to the LLP will be subject to certain conditions, including the following:

- each New Seller accedes to the terms of the LLP Deed as Member (with such subsequent amendments as may be agreed by the parties thereto) so that it has, in relation to those New Loans and their Related Security to be sold by the relevant New Seller, substantially the same rights and obligations as the Seller had in relation to those Loans and their Related Security comprised in the Initial Portfolio under the LLP Deed;

- each New Seller accedes to the terms of the Mortgage Sale Agreement (with such subsequent amendments as may be agreed by the parties thereto) or enters into a new mortgage sale agreement with the LLP and the Security Trustee, in each case so that it has, in relation to those New Loans and their Related Security to be sold by the relevant New Seller, substantially the same rights and obligations as the Seller had in relation to those Loans and their Related Security comprised in the Initial Portfolio under the Mortgage Sale Agreement;

- each New Seller accedes to the Programme Agreement and enters into such other documents as may be required by the Security Trustee and/or the LLP (acting reasonably) to give effect to the addition of a New Seller to the transactions contemplated under the Programme;

- any New Loans and their Related Security sold by a New Seller to the LLP comply with the Eligibility Criteria set out in the Mortgage Sale Agreement;

- either the Servicer services the New Loans and their Related Security sold by a New Seller on the terms set out in the Servicing Agreement (with such subsequent amendments as may be agreed by the parties thereto) or the New Seller (or its nominee) enters into a servicing agreement with the LLP and the Security Trustee which sets out the servicing obligations of the New Seller (or its nominee) in relation to the New Loans and their Related Security and which is on terms substantially similar to the terms set out in the Servicing Agreement (fees payable to the Servicer or the New Seller (or its nominee) acting as servicer of such New Loans and their Related Security would be determined on the date of the accession of the New Seller to the Programme);

- the Security Trustee is satisfied that any accession of a New Seller to the Programme will not prejudice the Asset Coverage Test; and

- the Security Trustee is satisfied that the accession of a New Seller to the Programme is not materially prejudicial to holders of the Covered Bonds and has received a Rating Agency Confirmation in relation thereto.

If the above conditions are met, the consent of holders of the Covered Bonds will not be obtained to the accession of a New Seller to the Programme.

The Mortgage Sale Agreement and any non-contractual obligations arising out of or in connection with it are governed by English law (other than certain aspects relating to the Scottish Loans and their Related Security and Northern Irish Loans and their Related Security, which are governed by Scots law and Northern Irish law respectively).

**Servicing Agreement**

Pursuant to the terms of the Servicing Agreement entered into on the Initial Programme Date as amended and restated on 30 April 2008, 7 January 2011, 17 July 2013 and 1 July 2016 between the LLP, Nationwide (in its capacity as Servicer) and the Security Trustee, the Servicer has agreed to service on behalf of the LLP the Loans and their Related Security sold by the Seller to the LLP.

The Servicer is required to service the Loans in accordance with the Servicing Agreement and:

(a) as if the Loans and their Related Security sold by the Seller to the LLP had not been sold to the LLP but remained with the Seller; and

(b) in accordance with the Seller's administration, arrears and enforcement policies and procedures forming part of the Servicer's policy from time to time as they apply to those Loans.

The Servicer's actions in servicing the Loans in accordance with its procedures are binding on the LLP and the Secured Creditors.

The Servicer has the power to exercise the rights, powers and discretions and to perform the duties of the LLP in relation to the Loans and their Related Security that it is servicing pursuant to the terms of the Servicing Agreement, and to do anything which it reasonably considers necessary or convenient or incidental to the administration of those Loans and their Related Security.

**Undertakings of the Servicer**

Pursuant to the terms of the Servicing Agreement, the Servicer has undertaken in relation to those Loans and their Related Security that it is servicing, *inter alia*, to:

- keep records and accounts on behalf of the LLP in relation to the Loans;

- keep the Loan Files and Title Deeds in its possession or under its control in safe custody and maintain records necessary to enforce each Mortgage and to provide the LLP and the Security Trustee with access to the Title Deeds and other records relating to the servicing of the Loans and their Related Security;

- maintain a register in respect of the Portfolio;

- make available to the LLP and the Security Trustee a report on a monthly basis containing information about the Loans and their Related Security comprised in the Portfolio;

- with effect on and from the date on which the Issuer is admitted to the register of issuers pursuant to Regulation 14 of the RCB Regulations, provide to the FCA such information about the Loans and their Related Security contained in the Portfolio and/or such other information as the FCA may direct pursuant to the RCB Regulations;

- assist the Cash Manager in the preparation of a monthly asset coverage report in accordance with the Cash Management Agreement;

- take all reasonable steps to recover all sums due to the LLP, including instituting proceedings and enforcing any relevant Loan or Mortgage using the discretion of a Reasonable, Prudent Mortgage Lender in applying the enforcement procedures forming part of the Seller's policy; and

- enforce any Loan which is in default in accordance with the Seller's enforcement procedures or, to the extent that such enforcement procedures are not applicable having regard to the nature of the default in question, with the usual procedures undertaken by a Reasonable, Prudent Mortgage Lender on behalf of the LLP.

The Servicer has covenanted to each of the LLP and the Security Trustee in the Servicing Agreement that, upon the Servicer ceasing to be assigned a long-term unsecured, unguaranteed and unsubordinated debt obligation rating by S&P of at least BBB-, or a counterparty risk assessment by Moody's of at least Baa3(cr) or a long-term unsecured, unguaranteed and unsubordinated debt obligation rating from Fitch of at least BBB- (a **Back-Up Servicer Event**), it will use best endeavours to (with the assistance of the Back-Up Servicer Facilitator), to identify and appoint a third party satisfactory to the LLP to act as a back-up or stand-by servicer (the **Back-Up Servicer**) to the Servicer within 60 days of such Back-Up Servicer Event.

**Setting of Standard Variable Rate and other discretionary rates and margins**

Pursuant to the terms of the Mortgage Sale Agreement and in accordance with Mortgage Conditions applicable to certain of the Loans, the Seller has prescribed policies relating to interest rate setting, arrears management and handling of complaints which the LLP (and any subsequent purchaser thereof) will be required to adhere to following the transfer of Loans and their Related Security. Such arrears management and handling of complaints policies are consistent with those to be applied by the Servicer under the terms of the Servicing Agreement. The interest rate setting policy specified in the Mortgage Sale Agreement is only applicable to Loans with interest rates which may be varied from time to time in the discretion of the lender and requires that such interest rates should be set:

(a) where the borrower has been guaranteed it will be capped by reference to a certain level at, either above or below, the Bank of England base rate (or any other rate) at the time (such rate being the **SVR Capped Rate**), at no more than the SVR Capped Rate; and

(b) in accordance with any applicable requirements, statement of good practice or guidelines of the OFT, FCA or any other regulatory body with which it is customary to comply.

In addition to the undertakings described above, the Servicer has also undertaken in the Servicing Agreement to determine and set in relation to all the Loans in the Portfolio the Standard Variable Rate and any other discretionary rates and margins (in accordance with the policy to be adhered to by the LLP above) except in the limited circumstances described below in this sub-section when the LLP will be entitled to do so. The Servicer will not at any time prior to service of a Notice to Pay on the LLP and/or the transfer of legal title to the Portfolio (or any part thereof) to the LLP, without the prior consent of the LLP, set or maintain:

(i) the Standard Variable Rate applicable to the Loans sold by the Seller to the LLP and in the Portfolio at a rate which is higher than (although it may be lower than or equal to) the then prevailing Standard Variable Rate of the Seller which applies to mortgage loans beneficially owned by the Seller outside the Portfolio; and

(ii) any other discretionary rate or margin in respect of any other Loan sold by the Seller to the LLP and in the Portfolio which is higher than (although it may be lower than or equal to) the interest rate or margin which applies to that type of mortgage loan beneficially owned by the Seller outside the Portfolio.

In particular, the Servicer shall determine on each Calculation Date, having regard to:

(a) the income which the LLP would expect to receive during the next succeeding LLP Payment Period (the **Relevant LLP Payment Period**);

(b) the Standard Variable Rate and any other discretionary rate or margin in respect of the Loans which the Servicer proposes to set under the Servicing Agreement for the Relevant LLP Payment Period; and

(c) the other resources available to the LLP including the Interest Rate Swap Agreement, the relevant Covered Bond Swap Agreements and the Reserve Fund,

whether the LLP would receive an amount of income during the Relevant LLP Payment Period which, when aggregated with the funds otherwise available to it, is less than the amount which is the aggregate of (i) the amount of interest which would be payable (or provisioned to be paid) under the Intercompany Loan or, if a Notice to Pay has been served, the Covered Bond Guarantee on each LLP Payment Date falling prior to the end of the Relevant LLP Payment Period and relevant amounts payable (or provisioned to be paid) to the Covered Bond Swap Providers under the Covered Bond Swap Agreements in respect of all Covered Bonds on each LLP Payment Date of each Series of Covered Bonds falling prior to the end of the relevant LLP Payment Period and (ii) the other senior expenses payable by the LLP ranking in priority thereto in accordance with the relevant Priority of Payments applicable prior to an LLP Event of Default and/or the commencement of winding-up proceedings against the LLP and/or realisation of the Security. Any such shortfall shall be referred to herein as the **Interest Rate Shortfall**.

If the Servicer determines that there will be an Interest Rate Shortfall in the foregoing amounts, it will give written notice to the LLP and the Security Trustee, within one Business Day, of the amount of the Interest Rate Shortfall. If the LLP or the Security Trustee notifies the Servicer and the Seller that, having regard to the obligations of the LLP and the amount of the Interest Rate Shortfall, further Loans and their Related Security should be sold by the Seller to the LLP pursuant to the Mortgage Sale Agreement, the Seller will use all reasonable efforts to offer to sell New Loans and their Related Security to the LLP on or before the next Calculation Date which have a Standard Variable Rate and/or other discretionary rates or margins sufficient to avoid such Interest Rate Shortfall on future Calculation Dates. In consideration of such sale, the Seller will be treated as having made a Capital Contribution (in an amount equal to the True Balance of the New Loans) sold by the Seller as at the relevant Transfer Date and will be entitled to receive the Deferred Consideration.

In addition, the Servicer shall determine on each Calculation Date following an Issuer Event of Default, having regard to the aggregate of:

(a) the Standard Variable Rate and any other discretionary rate or margin in respect of the Loans which the Servicer proposes to set under the Servicing Agreement for the relevant LLP Payment Period; and

(b) the other resources available to the LLP under the Interest Rate Swap Agreement,

whether the LLP would receive an aggregate amount of interest on the Loans and amounts under the Interest Rate Swap Agreement during the Relevant LLP Payment Period which would give a yield on the Loans of at least LIBOR plus 0.15%.

If the Servicer determines that the Yield Shortfall Test will not be met, it will give written notice to the LLP and the Security Trustee, within one Business Day, of the amount of the shortfall and the Standard Variable Rate and the other discretionary rates or margins which would, in the Servicer's opinion, need to be set in order for no shortfall to arise, and the Yield Shortfall Test to be met, having regard to the date(s) on which the change to the Standard Variable Rate and the other discretionary rates or margins would take effect and at all times acting in accordance with the standards of a Reasonable, Prudent Mortgage Lender. If the LLP or the Security Trustee notifies the Servicer that, having regard to the obligations of the LLP, the Standard Variable Rate and/or the other discretionary rates or margins should be increased, the Servicer or replacement Servicer, as the case may be, will take all steps which are necessary to increase the Standard Variable Rate and/or any other discretionary rates or margins including publishing any notice which is required in accordance with the Mortgage Terms.

The LLP and the Security Trustee may terminate the authority of the Servicer to determine and set the Standard Variable Rate and any other variable rates or margins on the occurrence of a Servicer Event of Default as defined under "*—Removal or resignation of the Servicer*", in which case the LLP and the Security Trustee will agree to appoint the replacement Servicer to set the Standard Variable Rate and the other discretionary rates or margins itself in accordance with this sub-section.

**Remuneration**

As full remuneration for its servicing duties and activities and as reimbursement for any expense incurred by it in connection therewith, the Servicer or any substitute servicer which is a member of the Nationwide Group is entitled to receive the fee from the LLP as set out in Servicing Agreement. If, however, a servicer is appointed from outside the Nationwide Group, the level of this fee may be amended.

**Removal or resignation of the Servicer**

The LLP and the Security Trustee may, upon written notice to the Servicer, terminate the Servicer's rights and obligations immediately if any of the following events (each a **Servicer Termination Event** and, each of the first three events set out below, a **Servicer Event of Default**) occurs:

- the Servicer defaults in the payment of any amount due to the LLP under the Servicing Agreement and fails to remedy that default for a period of three Business Days after becoming aware of the default;

- the Servicer fails to comply with any of its other obligations under the Servicing Agreement which failure in the opinion of the Security Trustee is materially prejudicial to holders of the Covered Bonds and does not remedy that failure within 20 Business Days after becoming aware of the failure;

- an Insolvency Event occurs in relation to the Servicer; or

- the LLP resolves that the appointment of the Servicer should be terminated.

Upon the termination of the Servicer, the LLP (with the assistance of the Back-Up Servicer Facilitator) shall use reasonable endeavours to appoint a substitute servicer in accordance with the terms of the Servicing Agreement provided that if:

(a) an entity is acting as a Back-Up Servicer or standby servicer to the Servicer as a consequence of the occurrence of a Back-Up Servicer Event;

(b) no event has occurred which would entitle the LLP to terminate the back-up or stand-by servicer's appointment under the agreement appointing the Back-Up Servicer or stand-by servicer; and

(c) the Back-Up or stand-by servicer is contractually committed to provide the services in relation to the Portfolio if the appointment of the relevant Servicer is terminated pursuant to the Servicing Agreement,

the appointment of the Back-Up Servicer or stand-by servicer shall satisfy the obligation of the LLP to appoint a substitute servicer.

Subject to the fulfilment of a number of conditions, the Servicer may voluntarily resign by giving not less than 12 months' notice to the Security Trustee, the LLP and the Back-Up Servicer Facilitator provided that a substitute servicer qualified to act as such under the FSMA 2000 and with a management team with experience of administering mortgages in the United Kingdom has been appointed (with the assistance of the Back-Up Servicer Facilitator) and enters into a servicing agreement with the LLP substantially on the same terms as the Servicing Agreement. The resignation of the Servicer is conditional on the resignation having no adverse effect on the then current ratings of the Covered Bonds unless the holders of the Covered Bonds agree otherwise by Extraordinary Resolution.

In addition, the appointment of the Servicer may be terminated by the Servicer upon the expiry of not less than 60 days' written notice of termination given by the Servicer to the LLP, the Back-Up Servicer Facilitator and the Security Trustee if (i) following a Perfection Event, the Servicer has certified to the LLP and the Security Trustee in writing that it cannot operationally continue to service the relevant Loans and their Related Security and or (ii) a Back-Up Servicer or stand-by Servicer has been appointed.

If the appointment of the Servicer is terminated, the Servicer must deliver the Title Deeds and Loan Files relating to the Loans administered by it to, or at the direction of, the LLP. The Servicing Agreement will terminate at such time as the Servicer has no further interest in any of the Loans or their Related Security sold to the LLP and serviced under the Servicing Agreement that have been comprised in the Portfolio.

The Servicer may subcontract or delegate the performance of its duties under the Servicing Agreement provided that it meets conditions as set out in the Servicing Agreement.

Neither the Bond Trustee nor the Security Trustee is obliged to act as servicer in any circumstances.

*Back-up Servicer*

The Servicer has covenanted to each of the LLP and the Security Trustee that, upon the Servicer ceasing to be assigned a long-term unsecured, unguaranteed and unsubordinated debt obligation rating by S&P of at least BBB-, or a counterparty risk assessment by Moody's of at least Baa3(cr) or a long-term unsecured, unguaranteed and unsubordinated debt obligation rating from Fitch of at least BBB- (a **Back-Up Servicer Event**), it will use best endeavours to (with the assistance of the Back-Up Servicer Facilitator), to identify and appoint a third party satisfactory to the LLP to act as a back-up or stand-by servicer (the **Back-Up Servicer**) to the Servicer within 60 days of such Back-Up Servicer Event.

Any Back-Up Servicer appointed on or after the occurrence of a Back-Up Servicer Event will be paid a fee with regard to the services it performs as agreed separately between the LLP and the Back-Up Servicer (the **Back-Up Servicer Fee**). The amount of the Back-Up Servicer Fee will be added to the fees and costs that are payable to the Servicer by the LLP in accordance with the relevant Priorities of Payment and the Servicing Agreement, and the Servicer shall promptly following receipt of such amount pay the Back-Up Servicing Fee to the Back-Up Servicer or direct the LLP to pay such amounts directly to the Back-Up Servicer.

*Back-Up Servicer Facilitator*

The LLP has appointed the Back-Up Servicer Facilitator as its agent to, following the earlier to occur of a Back-Up Servicer Event and a Servicer Termination and in conjunction with the Servicer or, as applicable,

the LLP, use best efforts to identify, on behalf of the LLP, a suitable entity to provide, in the case of a Back-Up Servicer Event, back-up or stand-by services to the Servicer in accordance with the terms of the Servicing Agreement or, in the case of a Servicer Termination, servicing services to the LLP.

The Servicing Agreement and any non-contractual obligation arising out of or in connection with it are governed by English law and it will be made by way of deed.

**Asset Monitor Agreement**

Under the terms of the Asset Monitor Agreement entered into on the Initial Programme Date as amended and restated on 3 July 2009, on 17 July 2013 and 1 July 2016 between the Asset Monitor, the LLP, the Cash Manager and the Security Trustee, the Asset Monitor has agreed, subject to due receipt of the information to be provided by the Cash Manager to the Asset Monitor, to report on the arithmetic accuracy of the calculations performed by the Cash Manager on the latest Calculation Date that falls at least 30 days prior to the anniversary of the Programme Date with a view to confirmation of compliance by the LLP with the Asset Coverage Test or the Amortisation Test, as applicable, on that Calculation Date.

If the long-term unsecured, unguaranteed and unsubordinated debt obligation ratings of the Cash Manager or the Issuer fall below BBB- by S&P or BBB- by Fitch or if the Cash Manager or the Issuer ceases to be assigned a long-term counterparty risk assessment by Moody's of at least Baa3(cr), or if an Asset Coverage Test Breach Notice has been served and has not been revoked, the Asset Monitor will, subject to receipt of the relevant information from the Cash Manager, be required to report on such arithmetic accuracy following each Calculation Date and, following a determination by the Asset Monitor of any errors in the calculations performed by the Cash Manager such that the Asset Coverage Test has been failed on the applicable Calculation Date (where the Cash Manager had recorded it as being satisfied) or the Adjusted Aggregate Loan Amount or the Amortisation Test Aggregate Loan Amount is mis-stated by an amount exceeding 1% of the Adjusted Aggregate Loan Amount or the Amortisation Test Aggregate Loan Amount, as applicable, (as at the date of the relevant Asset Coverage Test or the relevant Amortisation Test), the Asset Monitor will be required to conduct such tests following each Calculation Date for a period of six months thereafter.

The Asset Monitor is entitled, in the absence of manifest error, to assume that all information provided to it by the Cash Manager for the purpose of reporting on the arithmetic accuracy is true and correct and not misleading, and is not required to report as such or otherwise take steps to verify the accuracy of any such information. The Asset Monitor Report will be delivered to the Cash Manager, the LLP, the Issuer, the Bond Trustee and the Security Trustee.

As at the Initial Programme Date, the LLP will pay to the Asset Monitor a fee of up to £5,000 per report (exclusive of VAT) for the reports to be performed by the Asset Monitor.

The LLP may, at any time, only with the prior written consent of the Security Trustee, terminate the appointment of the Asset Monitor by giving at least 60 days' prior written notice to the Asset Monitor, and the Asset Monitor may, at any time, resign by giving at least 60 days' prior written notice to the LLP and the Security Trustee (such replacement to be approved by the Security Trustee (such approval to be given if the replacement is an accountancy firm of national standing) which agrees to perform the duties (or substantially similar duties) of the Asset Monitor set out in the Asset Monitor Agreement).

Upon giving notice of resignation, the Asset Monitor shall immediately use its best endeavours to appoint a replacement (such replacement to be approved by the Security Trustee) which agrees to perform the duties of the Asset Monitor set out in the Asset Monitor Agreement. If a replacement is not appointed by the date which is 30 days prior to the date when tests are to be carried out in accordance with the terms of the Asset Monitor Agreement, then the LLP shall use all reasonable endeavours to appoint an accountancy firm of national standing to carry out the relevant tests on a one-off basis, provided that such appointment is approved by the Security Trustee.

The Asset Monitor has also been appointed as the "Asset Pool Monitor" (as defined in the RCB Regulations) for the purposes of the RCB Regulations, as to which see further "*Description of the UK Regulated Covered Bond Regime*".

Neither the Bond Trustee nor the Security Trustee will be obliged to act as Asset Monitor in any circumstances.

The Asset Monitor Agreement and any non-contractual obligation arising out of or in connection with it are governed by English law.

**LLP Deed**

The Members of the LLP have agreed to operate the business of the LLP in accordance with the terms of a limited liability partnership deed entered into on the Initial Programme Date as amended and restated and or supplemented on 21 February 2007, 30 November 2007, 30 April 2008, 19 June 2008, 3 July 2009, 18 December 2009, 28 June 2012, 17 July 2013 and 1 July 2016 (such limited liability partnership deed as amended and/or supplemented and/or restated from time to time, the **LLP Deed**) between the LLP, Nationwide, the Liquidation Member, the Bond Trustee and the Security Trustee.

**Members**

As at the date of this Base Prospectus, each of Nationwide and the Liquidation Member is a member (each a **Member**, and together with any other members from time to time, the **Members**) of the LLP. Nationwide and the Liquidation Member are designated members (each a **Designated Member**, and together with any other designated members from time to time, the **Designated Members**) of the LLP. The Designated Members shall have such duties as are specified in the LLPA 2000 or otherwise at law and in the LLP Deed. The LLP Deed requires that there will at all times be at least two Designated Members of the LLP.

For so long as Covered Bonds are outstanding, if an administrator or a liquidator is appointed to Nationwide, the Seller will automatically cease to be a Member of the LLP and the outstanding balance of the Seller's Capital Contribution to the LLP will be converted into a subordinated debt obligation (the **Issuer Subordinated Loan**). In these circumstances, the Liquidation Member (with the prior written consent of the Security Trustee whilst the Covered Bonds are outstanding) may, by written notice to the LLP, appoint another Member as a Designated Member or may, at its sole discretion (acting on behalf of itself and the other Members), admit a New Member to the LLP (in each case with the prior written consent of the Security Trustee).

No New Member may be otherwise appointed without the consent of the Security Trustee and the receipt by the Issuer or the Security Trustee of a Rating Agency Confirmation.

**Capital Contributions**

From time to time Nationwide (in its capacity as a Member) will make Capital Contributions to the LLP. Capital Contributions may be made in cash or in kind (e.g. through a contribution of Loans to the LLP). The Capital Contributions of Nationwide shall be calculated in Sterling on each Calculation Date as the difference between (a) the True Balance of the Portfolio as at the last day of the preceding Calculation Period plus Principal Receipts standing to the credit of the GIC Account plus the principal amount of Substitution Assets and Authorised Investments as at the last day of the preceding Calculation Period and (b) the Sterling Equivalent of the aggregate Principal Amount Outstanding under the Covered Bonds as at the last day of the preceding Calculation Period.

The Liquidation Member will not make any Capital Contributions to the LLP.

Any Cash Capital Contributions made by Nationwide (in its capacity as a Member) from time to time shall, unless an Asset Coverage Test Breach Notice has been served and not been revoked (a) be distributed to Nationwide as a Capital Distribution by way of a distribution of the Issuer's equity in the LLP; (b) be used to repay a Term Advance, if so directed by Nationwide (in its capacity as a Member); (c) be used to fund the Reserve Fund (together with other amounts that may be credited to such Reserve Fund, up to an aggregate amount equal to the Reserve Fund Required Amount); (d) be paid as consideration in part for the acquisition of Loans and their Related Security from the Seller pursuant to the terms of the Mortgage Sale Agreement; or (e) be used to invest in Substitution Assets (in an amount up to but not exceeding the prescribed limit).

**Asset Coverage Test**

Under the terms of the LLP Deed, the LLP and the Members (other than the Liquidation Member) must ensure that on each Calculation Date, the Adjusted Aggregate Loan Amount is in an amount at least equal to the Sterling Equivalent of the aggregate Principal Amount Outstanding of the Covered Bonds as calculated on the relevant Calculation Date.

If on any Calculation Date, the Adjusted Aggregate Loan Amount is less than the aggregate Principal Amount Outstanding of all Covered Bonds as calculated on the relevant Calculation Date, then the LLP (or the Cash Manager on its behalf) will notify the Members, the Bond Trustee and the Security Trustee thereof and the Members (other than the Liquidation Member) will use all reasonable endeavours to sell sufficient further Loans and their Related Security to the LLP in accordance with the Mortgage Sale Agreement (see "*Summary of the Principal Documents – Mortgage Sale Agreement – Sale by the Seller of Loans and Related Security*") or provide Cash Capital Contributions to ensure that the Asset Coverage Test is met on the next following Calculation Date. If the Adjusted Aggregate Loan Amount is less than the aggregate Principal Amount Outstanding of all Covered Bonds on the next following Calculation Date, the Asset Coverage Test will be breached and the Bond Trustee will serve an Asset Coverage Test Breach Notice on the LLP and the LLP shall send notice of the same pursuant to the RCB Regulations. The Bond Trustee shall revoke an Asset Coverage Test Breach Notice if, on any Calculation Date falling on or prior to the third Calculation Date following the service of an Asset Coverage Test Breach Notice the Asset Coverage Test is subsequently satisfied and neither a Notice to Pay nor an LLP Acceleration Notice has been served.

Following service of an Asset Coverage Test Breach Notice (which has not been revoked):

(a) the LLP will be required to sell Selected Loans (as described further under "*LLP Deed – Sale of Selected Loans and Related Security following service of an Asset Coverage Test Breach Notice*");

(b) prior to the occurrence of an Issuer Event of Default and service of an Issuer Acceleration Notice or, if earlier, the occurrence of an LLP Event of Default and service of an LLP Acceleration Notice, the Pre-Acceleration Revenue Priority of Payments and the Pre- Acceleration Principal Priority of Payments will be modified as more particularly described in "*Cashflows–Allocation and distribution of Available Revenue Receipts and Available Principal Receipts following service of an Asset Coverage Test Breach Notice*" below; and

(c) the Issuer will not be permitted to make to the LLP and the LLP will not be permitted to borrow from the Issuer any new Term Advances under the Intercompany Loan Agreement.

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

For the purposes hereof:

**Adjusted Aggregate Loan Amount** means the amount calculated on each Calculation Date as follows:

$$\mathbf{A + B + C + D + E - (V + W + X + Y + Z)}$$

where,

A = the lower of (i) and (ii), where:

(i) = the sum of the **Adjusted True Balance** of each Loan in the Portfolio, which shall be the lower of (A) the actual True Balance of the relevant Loan in the Portfolio as calculated on the relevant Calculation Date and (B) the Indexed Valuation relating to that Loan multiplied by M (where for all Loans that are less than three months in arrears or not in arrears, M = 0.75, for all Loans that are three months or more in arrears and have a True Balance to Indexed Valuation ratio of less than or equal to 75%, M = 0.40 and for all Loans that are three months or more in arrears and have a True Balance to Indexed Valuation ratio of more than to 75%, M = 0.25),

***minus***

the aggregate sum of the following deemed reductions to the aggregate Adjusted True Balance of the Loans in the Portfolio if any of the following occurred during the previous Calculation Period:

(i) a Loan or its Related Security was, in the immediately preceding Calculation Period, in breach of the Representations and Warranties contained in the Mortgage Sale Agreement or subject to any other obligation of the Seller to repurchase the relevant Loan and its Related Security, and in each case the Seller has not repurchased the Loan or Loans of the relevant Borrower and its or their Related Security to the extent required by the terms of the Mortgage Sale Agreement. In this event, the aggregate Adjusted True Balance of the Loans in the Portfolio (as calculated on the relevant Calculation Date) will be deemed to be reduced by an amount equal to the Adjusted True Balance of the relevant Loan or Loans (as calculated on the relevant Calculation Date) of the relevant Borrower; and/or

(ii) the Seller, in any preceding Calculation Period, was in breach of any other material warranty under the Mortgage Sale Agreement and/or the Servicer was, in any preceding Calculation Period, in breach of a material term of the Servicing Agreement. In this event, the aggregate Adjusted True Balance of the Loans in the Portfolio (as calculated on the relevant Calculation Date) will be deemed to be reduced by an amount equal to the resulting financial loss incurred by the LLP in the immediately preceding Calculation Period (such financial loss to be calculated by the Cash Manager without double counting and to be reduced by any amount paid (in cash or in kind) to the LLP by the Seller to indemnify the LLP for such financial loss);

AND

(ii) = the aggregate **Arrears Adjusted True Balance** of the Loans in the Portfolio as at the relevant Calculation Date which in relation to each Loan shall be the lower of (A) the actual True Balance of the relevant Loan as calculated on the relevant Calculation Date and (B) the Indexed Valuation relating to that Loan multiplied by N (where for all Loans that are less than three months in arrears or not in arrears, N = 1, for all Loans that are three months or

more in arrears and have a True Balance to Indexed Valuation ratio of less than or equal to 75%, N = 0.40 and for all Loans that are three months or more in arrears and have a True Balance to Indexed Valuation ratio of more than 75%, N = 0.25);

***minus***

the aggregate sum of the following deemed reductions to the aggregate Arrears Adjusted True Balance of the Loans in the Portfolio if any of the following occurred during the previous Calculation Period:

(i) a Loan or its Related Security was, in the immediately preceding Calculation Period, in breach of the Representations and Warranties contained in the Mortgage Sale Agreement or subject to any other obligation of the Seller to repurchase the relevant Loan and its Related Security, and in each case the Seller has not repurchased the Loan or Loans of the relevant Borrower and its or their Related Security to the extent required by the terms of the Mortgage Sale Agreement. In this event, the aggregate Arrears Adjusted True Balance of the Loans in the Portfolio (as calculated on the relevant Calculation Date) will be deemed to be reduced by an amount equal to the Arrears Adjusted True Balance of the relevant Loan or Loans (as calculated on the relevant Calculation Date) of the relevant Borrower; and/or

(ii) the Seller, in any preceding Calculation Period, was in breach of any other material warranty under the Mortgage Sale Agreement and/or the Servicer was, in the immediately preceding Calculation Period, in breach of a material term of the Servicing Agreement. In this event, the aggregate Arrears Adjusted True Balance of the Loans in the Portfolio (as calculated on the relevant Calculation Date) will be deemed to be reduced by an amount equal to the resulting financial loss incurred by the LLP in the immediately preceding Calculation Period (such financial loss to be calculated by the Cash Manager without double counting and to be reduced by any amount paid (in cash or in kind) to the LLP by the Seller to indemnify the LLP for such financial loss),

***the result of the calculation in this paragraph (ii)) being multiplied by*** the Asset Percentage (as defined below);

B = the aggregate amount of any Principal Receipts on the Loans in the Portfolio up to the end of the immediately preceding Calculation Period (as recorded in the Principal Ledger) which have not been applied as at the relevant Calculation Date to acquire further Loans and their Related Security or otherwise applied in accordance with the LLP Deed and/or the other Transaction Documents;

C = the aggregate amount of any Cash Capital Contributions made by the Members (as recorded in the Capital Account Ledger of each Member) or proceeds of Term Advances which have not been applied as at the relevant Calculation Date to acquire further Loans and their Related Security or otherwise applied in accordance with this Deed and/or the other Transaction Documents;

D = the aggregate outstanding principal balance of any Substitution Assets;

E = the aggregate of (i) the amount of any Sale Proceeds standing to the credit of any GIC Account and credited to the Pre-Maturity Liquidity Ledger as at the relevant Calculation Date plus (ii) any amount standing to the credit of any GIC Account and credited to the Supplemental Liquidity Reserve Ledger as at the relevant Calculation Date (in each case, without double counting);

V = (i) for so long as Nationwide is the Account Bank with respect to the Collateralised GIC Account but does not have ratings at least equal to the Account Bank Required Ratings, an amount equal to the amounts deposited in the Collateralised GIC Account comprising the Designated Mortgages Amount or (ii) in all other cases, zero;

W = an amount equal to the Supplemental Liquidity Reserve Amount;

X = either:

(a) zero, for so long as (i) the Issuer's credit ratings from S&P are at least BBB+ long-term and A-2 short-term; and the Issuer is assigned a long-term counterparty risk assessment by Moody's of at least A2(cr); and (iii) the Issuer's credit ratings from Fitch are at least A long-term and F1 short-term; or

(b) the sum of the Deposit Set-off Balance for each Loan, where the **Deposit Set-off Balance** equals, (i) in respect of each Loan where the aggregate amount of the relevant Borrower's deposit account balances exceeds the FSCS Limit but the True Balance of the relevant Loan does not exceed the FSCS Limit, the lower of: (A) the True Balance of the relevant Loan; and (B) the aggregate amount of deposit account balances of the relevant Borrower minus the FSCS Limit, each as calculated on the relevant Calculation Date and notified to the Rating Agencies, or (ii) in respect of each Loan where the aggregate amount of the relevant Borrower's deposit account balances exceeds the FSCS Limit and the True Balance of the relevant Loan also exceeds the FSCS Limit, the lower of: (a) the True Balance of the relevant Loan; and (b) the aggregate amount of deposit account balances, provided that if the aggregate amount of deposit account balances of such Borrower is not available, the Deposit Set-off Balance for that Loan shall be 4% of the True Balance of that Loan on the relevant Calculation Date;

Y = 8% multiplied by the Flexible Redraw Capacity (as defined below) multiplied by 3; and

Z = the weighted average remaining maturity of all Covered Bonds then outstanding ***multiplied by*** the Sterling Equivalent of the aggregate Principal Amount Outstanding of the Covered Bonds ***multiplied by*** the Negative Carry Factor where the **Negative Carry Factor** (a) 0.5% if the weighted average margin of the interest rate payable on the Covered Bonds is less or equal to 0.1% per annum or (b) 0.5% plus that margin minus 0.1%, if that margin is greater than 0.1% per annum (provided that if the weighted average remaining maturity is less than one, the weighted average shall be deemed, for the purposes of this calculation, to be one).

**Asset Percentage** means 93% or such lesser percentage figure as selected at the option of the LLP by the LLP (or the Cash Manager acting on its behalf) that is necessary to ensure that the Covered Bonds maintain the then current ratings assigned to them by Fitch and S&P or such figure selected by the LLP (or the Cash Manager on its behalf) and notified to Moody's and the Security Trustee.

Save where a different adjustment would not adversely affect the then current ratings of all outstanding Covered Bonds as confirmed in writing by the Rating Agencies, the Asset Percentage will be adjusted in accordance with the various methodologies prescribed by Fitch and S&P to ensure that sufficient credit enhancement will be maintained, provided that the Asset Percentage may not, at any time, exceed 93% unless where a different adjustment would not adversely affect the then current ratings of all outstanding Covered Bonds as confirmed in writing by the Rating Agencies.

In addition, the LLP or the Cash Manager acting on its behalf may, from time to time, send notification to Moody's and the Security Trustee of the percentage figure selected by it, being the difference between 100%

and the amount of credit enhancement required to ensure that the Covered Bonds achieve an Aaa rating by Moody's using Moody's expected loss methodology.

**Flexible Re-draw Capacity** means the sum of (a) the flexible cash re-draw capacity, being an amount equal to the difference between (i) the maximum amount of Cash Re-draws that Borrowers may make under Flexible Loans in the Portfolio (whether or not drawn) as at the last day of the immediately preceding Calculation Period and (ii) the aggregate True Balance of Cash Re-draws which form part of the Portfolio as at the last day of the immediately preceding Calculation Period; and (b) the further draw capacity being an amount equal to the difference between (i) the aggregate credit limit under Flexible Advances included in the Portfolio as at the last day of the immediately preceding Calculation Period and (ii) the aggregate True Balance of Flexible Advances which form part of the Portfolio as at the last date of the immediately preceding Calculation Period.

**FSCS Limit** means the current applicable limit established by the Financial Services Compensation Scheme.

**Supplemental Liquidity Reserve Amount** means: (i) prior to the service of a Notice to Pay, an amount equal to 5 per cent. of item "A" in the Asset Coverage Test; and (ii) following the service of a Notice to Pay, an amount equal to 5 per cent. of item "A" in the Asset Coverage Test immediately prior to the service of such Notice to Pay minus an amount equal to the aggregate True Balance of Loans sold to fund or replenish the Supplemental Liquidity Reserve Ledger; **provided that**, in each case, such amount shall be equal to at least 5 per cent. of the Sterling Equivalent of the Principal Amount Outstanding of the Covered Bonds as calculated on each relevant Calculation Date.

**Supplemental Liquidity Available Amount** means: (i) prior to the service of a Notice to Pay, an amount equal to the Supplemental Liquidity Reserve Amount minus, if a Supplemental Liquidity Event has occurred which is continuing, an amount equal to the aggregate True Balance of Loans sold to fund or replenish the Supplemental Liquidity Reserve Ledger, unless otherwise proposed to the Rating Agencies; and (ii) following the service of a Notice to Pay, an amount equal to the Supplemental Liquidity Reserve Amount.

**Amortisation Test**

The LLP and the Members (other than the Liquidation Member) must ensure that on each Calculation Date following service of a Notice to Pay on the LLP (but prior to service of an LLP Acceleration Notice and/or the commencement of winding-up proceedings against the LLP and/or realisation of the Security) the Amortisation Test Aggregate Loan Amount will be in an amount at least equal to the Sterling Equivalent of the aggregate Principal Amount Outstanding of the Covered Bonds as calculated on the relevant Calculation Date.

Following service of Notice to Pay on the LLP, if on any Calculation Date the Amortisation Test Aggregate Loan Amount is less than the Sterling Equivalent of the aggregate Principal Amount Outstanding of the Covered Bonds as calculated on the relevant Calculation Date, then the Amortisation Test will be deemed to be breached and an LLP Event of Default will occur. The LLP or the Cash Manager, as the case may be, will immediately notify the Members, the Security Trustee and (whilst Covered Bonds are outstanding) the Bond Trustee of any breach of the Amortisation Test and the Bond Trustee shall be entitled to serve an LLP Acceleration Notice in accordance with the Conditions.

The **Amortisation Test Aggregate Loan Amount** will be calculated on each Calculation Date as follows:

$$\mathbf{A}+\mathbf{B}+\mathbf{C}-\mathbf{Y}-\mathbf{Z}$$

where,

A = the aggregate **Amortisation Test True Balance** of each Loan, which shall be the lower of (a) the actual True Balance of the relevant Loan as calculated on the relevant Calculation Date multiplied by M and (b) 100% of the Indexed Valuation multiplied by M.

Where for all the Loans that are less than three months in arrears or not in arrears M = 1 or for all the Loans that are three months or more in arrears M = 0.7;

B = the sum of the amount of any cash standing to the credit of any GIC Account and any amount equal to the amounts deposited in the Collateralised GIC Account comprising the Designated Collateral Amount and the principal amount of any Authorised Investments (excluding any Revenue Receipts received in the immediately preceding Calculation Period);

C = the aggregate outstanding principal balance of any Substitution Assets;

Y = an amount equal to the Supplemental Liquidity Reserve Amount; and

Z = the weighted average remaining maturity of all Covered Bonds then outstanding ***multiplied by*** the Sterling Equivalent of the aggregate Principal Amount Outstanding of the Covered Bonds ***multiplied by*** the Negative Carry Factor.

**Sale of Selected Loans and their Related Security if the Pre-Maturity Test is breached**

The LLP Deed provides for sales of Selected Loans and their Related Security in certain circumstances where the Pre-Maturity Test has been breached. The Pre-Maturity Test will be breached if the ratings of the Issuer fall below a specified level and a Hard Bullet Covered Bond is due for repayment within a specified period of time thereafter (see further "*Credit Structure – Pre-Maturity Liquidity*" below). The LLP will be obliged to sell the Selected Loans and their Related Security to Purchasers, subject to the rights of pre-emption enjoyed by the Sellers to buy the Selected Loans and their Related Security pursuant to the terms of the Mortgage Sale Agreement, in accordance with the procedure summarised in "*– Method of Sale of Selected Loans*" below and subject to any Revenue Receipts and Principal Receipts standing to the credit of the GIC Account, any Cash Capital Contribution or Loan repurchase made by the Members or any Intercompany Loan funded by the issue of Soft Bullet Covered Bonds by the Issuer. If the Issuer and the LLP fail to repay any Series of Hard Bullet Covered Bonds on the Final Maturity Date thereof, then following the service of a Notice to Pay on the LLP, the proceeds from any sale of Selected Loans or any amounts standing to the credit of the Pre-Maturity Liquidity Ledger will be applied to repay the relevant Series of Hard Bullet Covered Bonds. Otherwise, the proceeds will be applied as set out in "*Credit Structure – Pre-Maturity Liquidity*" below.

**Sale of Selected Loans and their Related Security following service of an Asset Coverage Test Breach Notice**

After service of an Asset Coverage Test Breach Notice (which has not been revoked) or the service of a Notice to Pay and prior to service of an LLP Acceleration Notice, the LLP will be obliged to sell Selected Loans and their Related Security in the Portfolio in accordance with the LLP Deed (as described below), subject to the rights of pre-emption enjoyed by the Seller to buy the Selected Loans and their Related Security pursuant to the Mortgage Sale Agreement and subject to any Cash Capital Contribution made by the Members. The proceeds from any such sale or refinancing will be credited to the relevant GIC Account or the Collateralised GIC Account, as applicable and applied as set out in the Priorities of Payments (see "*Cashflow–Allocation and distribution of Available Revenue Receipts and Available Principal Receipts following service of an Asset Coverage Test Breach Notice*" below).

**Sale of Selected Loans and their Related Security following service of a Notice to Pay**

After a Notice to Pay has been served on the LLP but prior to service of an LLP Acceleration Notice and/or the commencement of winding-up proceedings against the LLP and/or realisation of the Security, the LLP will be obliged to sell Selected Loans and their Related Security in the Portfolio in accordance with the LLP Deed (as described below), subject to the rights of pre-emption enjoyed by the Seller to buy the Selected Loans and their Related Security pursuant to the Mortgage Sale Agreement. The proceeds from any such sale or refinancing will be credited to the relevant GIC Account or the Collateralised GIC Account, as applicable and applied as set out in the Guarantee Priority of Payments.

**Sale of Selected Loans and their Related Security if a Supplemental Liquidity Event has occurred**

If a Supplemental Liquidity Event has occurred which is continuing, then the LLP is permitted (but not required) to sell Selected Loans with the aim to fund or replenish the Supplemental Liquidity Reserve Ledger, provided that the aggregate True Balance of Selected Loans sold shall not exceed the Supplemental Liquidity Reserve Amount and provided further that the balance of the Supplemental Liquidity Reserve Ledger shall not exceed the Supplemental Liquidity Available Amount. If, during any LLP Payment Period, the LLP is permitted to sell such Selected Loans, the LLP shall ensure that any Selected Loans to be sold in these circumstances are selected on a random basis.

**Method of Sale of Selected Loans**

If the LLP is required or permitted to sell Selected Loans and their Related Security to Purchasers following a breach of the Pre-Maturity Test, the service of an Asset Coverage Test Breach Notice (if not revoked) or a Notice to Pay, the LLP will be required to ensure that before offering Selected Loans for sale:

(a) the Selected Loans have been selected from the Portfolio on a random basis as described in the LLP Deed; and

(b) the Selected Loans have an aggregate True Balance in an amount (the **Required True Balance Amount**) which is as close as possible to the amount calculated as follows:

(i) following the Service of an Asset Coverage Test Breach Notice (but prior to service of a Notice to Pay), such amount that would ensure that, if the Selected Loans were sold at their True Balance plus the Arrears of Interest and Accrued Interest thereon, the Asset Coverage Test would be satisfied on the next Calculation Date taking into account the payment obligations of the LLP on the Payment Date following that Calculation Date (assuming for this purpose that the Asset Coverage Test Breach Notice is not revoked on the next Calculation Date); or

(ii) following a breach of the Pre-Maturity Test or service of a Notice to Pay:

$$N \times \frac{\text{True Balance of all the Loans in the Portfolio less the Supplemental Liquidity Available Amount}}{\text{The Sterling Equivalent of the Required Redemption Amount in respect of each Series of Covered Bonds then outstanding}}$$

where "N" is an amount equal to:

- in respect of Selected Loans being sold following a breach of the Pre-Maturity Test, the Required Redemption Amount of the relevant Series of Hard Bullet Covered Bonds less amounts standing to the credit of the Pre-Maturity Liquidity Ledger that

are not otherwise required to provide liquidity for any Series of Hard Bullet Covered Bonds which mature prior to or on the same date as the relevant Series of Hard Bullet Covered Bonds; or

- in respect of the Selected Loans being sold following the service of a Notice to Pay, the Sterling Equivalent of the Required Redemption Amount of the Earliest Maturing Covered Bonds less amounts standing to the credit of any GIC Account and the Collateralised GIC Account and the principal amount of any Authorised Investments (excluding all amounts to be applied on the next following LLP Payment Date to repay higher ranking amounts in the Guarantee Priority of Payments and those amounts that are required to repay any Series of Covered Bonds which mature prior to or on the same date as the relevant Series of Covered Bonds).

The LLP will offer the Selected Loans and their Related Security for sale to Purchasers for the best price reasonably available but in any event:

(a) following the service of an Asset Coverage Test Breach Notice (but prior to the service of a Notice to Pay), for an amount not less than the True Balance of the Selected Loans plus the Arrears of Interest and Accrued Interest thereon; and

(b) following a breach of the Pre-Maturity Test or a service of a Notice to Pay, for an amount not less than the Adjusted Required Redemption Amount.

Following a breach of the Pre-Maturity Test or a the service of a Notice to Pay, if the Selected Loans and their Related Security have not been sold (in whole or in part) in an amount equal to the Adjusted Required Redemption Amount by the date which is six months prior to, as applicable, (i) in respect of Covered Bonds that are not subject to an Extended Due for Payment Date in respect of the Covered Bond Guarantee, the Final Maturity Date (ii) in respect of a sale in connection with the Pre-Maturity Test, the Final Maturity Date of the relevant Series of Hard Bullet Covered Bonds or (iii) in respect of Covered Bonds that are subject to an Extended Due for Payment Date in respect of the Covered Bond Guarantee, the Extended Due for Payment Date in respect of the Earliest Maturing Covered Bonds (after taking into account all payments, provisions and credits to be made in priority thereto), then the LLP will offer the Selected Loans for sale for the best price reasonably available notwithstanding that such amount may be less than the Adjusted Required Redemption Amount.

Following the service of a Notice to Pay, in addition to offering Selected Loans for sale to Purchasers in respect of the Earliest Maturing Covered Bonds, the LLP (subject to the rights of pre-emption enjoyed by the Seller pursuant to the Mortgage Sale Agreement) is permitted to offer for sale a portfolio of Selected Loans, in accordance with the provisions summarised above, in respect of other Series of Covered Bonds.

The LLP is also permitted to offer for sale to Purchasers a Partial Portfolio. Except in circumstances where the portfolio of Selected Loans is being sold within six months of, as applicable, the Final Maturity Date or, if the Covered Bonds are subject to an Extended Due for Payment Date in respect of the Covered Bond Guarantee, the Extended Due for Payment Date in respect of the Series of Covered Bonds to be repaid from such proceeds, the sale price of the Partial Portfolio (as a proportion of the Adjusted Required Redemption Amount) shall be at least equal to the proportion that the Partial Portfolio bears to the relevant portfolio of Selected Loans.

The LLP will through a tender process appoint a portfolio manager of recognised standing on a basis intended to incentivise the portfolio manager to achieve the best price for the sale of the Selected Loans (if such terms are commercially available in the market) and to advise it in relation to the sale of the Selected Loans to Purchasers (except where the Seller is buying the Selected Loans in accordance with their right of pre-emption in the Mortgage Sale Agreement). The terms of the agreement giving effect to the appointment in accordance with such tender shall be approved by the Security Trustee.

In respect of any sale or refinancing of Selected Loans and their Related Security following service of an Asset Coverage Test Breach Notice (if not revoked) or a Notice to Pay, the LLP will instruct the portfolio manager to use all reasonable endeavours to procure that Selected Loans are sold as quickly as reasonably practicable (in accordance with the recommendations of the portfolio manager) taking into account the market conditions at that time and the scheduled repayment dates of the Covered Bonds and the terms of the LLP Deed.

The terms of any sale and purchase agreement with respect to the sale of Selected Loans (which shall give effect to the recommendations of the portfolio manager) will be subject to the prior written approval of the Security Trustee. The Security Trustee will not be required to release the Selected Loans from the Security unless the conditions relating to the release of the Security (as described under "*– Deed of Charge – Release of Security*", below) are satisfied.

Following the service of a Notice to Pay, if Purchasers accept the offer or offers from the LLP so that some or all of the Selected Loans shall be sold prior to the next following Final Maturity Date of the Hard Bullet Covered Bonds or, as applicable, if the Covered Bonds are subject to an Extended Due for Payment Date in respect of the Covered Bond Guarantee, the next following Extended Due for Payment Date in respect of the Earliest Maturing Covered Bonds, then the LLP will, subject to the foregoing paragraph, enter into a sale and purchase agreement with the relevant Purchasers which will require *inter alia* a cash payment from the relevant Purchasers. Any such sale will not include any Representations and Warranties from the LLP in respect of the Loans and the Related Security unless expressly agreed by the Security Trustee or otherwise agreed with the Seller.

In addition, if during any LLP Payment Period, the LLP is permitted to sell Selected Loans where a Supplemental Liquidity Event has occurred, the LLP shall ensure that any Selected Loans to be sold are selected on a random basis.

**Covenants of the LLP and the Members**

Each of the Members has covenanted that, subject to the terms of the Transaction Documents, it will not sell, transfer, convey, create or permit to arise any security interest on, declare a trust over, create any beneficial interest in or otherwise dispose of its interest in the LLP without the prior written consent of the LLP and, whilst the Covered Bonds are outstanding, the Security Trustee. Whilst any amounts are outstanding in respect of the Covered Bonds, each of the Members undertakes not to terminate or purport to terminate the LLP or institute any winding-up, administration, insolvency or similar proceedings against the LLP.

The LLP has covenanted that it will not, save with the prior written consent of the LLP Management Committee (and, for so long as any Covered Bonds are outstanding, the consent of the Security Trustee) or as envisaged by the Transaction Documents:

(a) create or permit to subsist any security interest over the whole or any part of its assets or undertakings, present or future;

(b) dispose of, deal with or grant any option or present or future right to acquire any of its assets or undertakings or any interest therein or thereto;

(c) have an interest in a bank account other than as set out in the Transaction Documents;

(d) incur any indebtedness or give any guarantee or indemnity in respect of any such indebtedness;

(e) consolidate or merge with or transfer any of its property or assets to another person;

(f) have any employees, premises or subsidiaries;

(g) acquire assets other than pursuant to the Mortgage Sale Agreement, the Cash Management Agreement and the LLP Deed;

(h) engage in any activities or derive income from any activities within the United States or hold any property if doing so would cause it to be engaged or deemed to be engaged in a trade or business within the United States;

(i) enter into any contracts, agreements or other undertakings;

(j) compromise, compound or release any debt due to it;

(k) commence, defend, settle or compromise any litigation or other claims relating to it or any of its assets; or

(l) be a member of any VAT Group.

The LLP and each of the Members further covenants that from and including the date on which the Issuer is admitted to the register of issuers pursuant to Regulation 14 of the RCB Regulations it will:

(a) ensure that the Asset Pool will only comprise of those assets set out in items (a) to (h) of Regulation 3(1) (Asset Pool) of the RCB Regulations;

(b) ensure that the Loans and the Related Security, the Substitution Assets and the Authorised Investments contained in the Asset Pool comply with the definition of "eligible property" in Regulation 2 (Eligible Property) of the RCB Regulations;

(c) keep a record of those assets that form part of the Asset Pool (which, for the avoidance of doubt, shall not include any Swap Collateral) as prescribed by Regulation 3(2) of the RCB Regulations; and

(d) at all times comply with its obligations under the RCB Regulations and/or the RCB Sourcebook.

**Limit on Investing in Substitution Assets**

Prior to the service of an Asset Coverage Test Breach Notice (if not revoked) or a Notice to Pay on the LLP, the LLP will be permitted to invest Available Revenue Receipts, Available Principal Receipts and the proceeds of Term Advances standing to the credit of LLP Accounts in Substitution Assets, provided that the aggregate amount so invested in Substitution Assets does not exceed 10% of the total assets of the LLP at any one time and provided that such investments are made in accordance with the terms of the Cash Management Agreement. Depositing such amounts in any LLP Account will not constitute an investment in Substitution Assets for these purposes.

Following service of an Asset Coverage Test Breach Notice (if not revoked) or a Notice to Pay on the LLP, all Substitution Assets must be sold by the LLP (or the Cash Manager on its behalf) as quickly as reasonably practicable and the proceeds credited to the relevant GIC Account and the LLP will be permitted to invest all available moneys in Authorised Investments, provided that such investments are made in accordance with the terms of the Cash Management Agreement.

There is no limit on the amounts that the LLP shall be entitled to invest in Authorised Investments.

**Other Provisions**

The allocation and distribution of Revenue Receipts, Principal Receipts and all other amounts received by the LLP is described under "*Cashflows*" below.

The LLP Management Committee, comprised as at the date of this Base Prospectus of directors, officers and/or employees of Nationwide, will act on behalf of the LLP to which (other than any decision to approve the audited accounts of the LLP or to make a resolution for the voluntary winding up of the LLP, which requires a unanimous decision of the Members) the Members delegate all matters. Any decision by the LLP Management Committee relating to the admission of a New Member, any change in the LLP's business, any change to the LLP's name and any amendment to the LLP Deed, will be made, whilst any Covered Bonds are outstanding, with the consent of the Security Trustee.

For so long as any Covered Bonds are outstanding, each Member has agreed that it will not terminate or purport to terminate the LLP or institute any winding-up, administration, insolvency or other similar proceedings against the LLP. Furthermore, the Members have agreed *inter alia* not to demand or receive payment of any amounts payable by the LLP (or the Cash Manager on its behalf) or the Security Trustee unless all amounts then due and payable by the LLP to all other creditors ranking higher in the relevant Priorities of Payments have been paid in full.

Each Member will be responsible for the payment of its own tax liabilities and will be required to indemnify the LLP and the other Members from any liabilities which they incur as a result of the relevant Member's non-payment.

Following the appointment of a liquidator to any Member (other than the Liquidation Member), any decisions of the LLP that are reserved to the Members in the LLP Deed shall be made by the Liquidation Member only.

The LLP Deed and any non-contractual obligations arising out of or in connection with it are governed by English law.

**Cash Management Agreement**

The Cash Manager provides certain cash management services to the LLP pursuant to the terms of the Cash Management Agreement entered into on the Initial Programme Date as amended and restated on 27 November 2006, 30 November 2007, 30 April 2008, 3 July 2009, 18 December 2009 and 1 July 2016 between the LLP, Nationwide in its capacity as the Cash Manager, the Security Trustee and the and the Back-Up Cash Manager Facilitator. However, if after using their best endeavours to identify and appoint a suitable back-up cash manager, the Cash Manager and the LLP are unable to find a suitable third party willing to act as back-up cash manager, this shall not constitute a breach of such covenant.

The Cash Manager's services include but are not limited to:

(a) maintaining the Ledgers on behalf of the LLP;

(b) maintaining records of all Authorised Investments and/or Substitution Assets, as applicable in accordance with Regulation 3(2) of the RCB Regulations;

(c) distributing the Revenue Receipts and the Principal Receipts in accordance with the Priorities of Payment described under "*Cashflows*", below;

(d) determining whether the Asset Coverage Test is satisfied on each Calculation Date in accordance with the LLP Deed, as more fully described under "*Credit Structure – Asset Coverage Test*", below;

(e) determining whether the Amortisation Test is satisfied on each Calculation Date following an Issuer Event of Default in accordance with the LLP Deed, as more fully described under "*Credit Structure – Amortisation Test*", below;

(f) on each London Business Day, determining whether the Pre-Maturity Test for each Series of Hard Bullet Covered Bonds is satisfied as more fully described under "*Credit Structure – Pre-Maturity Liquidity*", below;

(g) providing information on the composition of any Substitute Assets and/or Authorised Investments comprised in the assets of the LLP and/or such other information as may be required in accordance with the RCB Regulations;

(h) preparation of Investor Reports for, among others, the Issuer, the Rating Agencies and the Bond Trustee; and

(i) identifying (prior to any such deposit) and recording amounts deposited in the Collateralised GIC Account as either a Designated Mortgages Amount or a Designated Collateral Amount (see "Collateral Posting" below).

*Collateral Posting*

The Cash Manager will, if it is depositing Deposit Non-Reserved Amounts into the Collateralised GIC Account where Nationwide is the Account Bank and ceases to have the Account Bank Required Ratings, from time to time identify and record amounts deposited in the Collateralised GIC Account as either a Designated Mortgages Amount or a Designated Collateral Amount. Swap Collateral amounts relating to (i) a Covered Bond Swap Agreement and deposited in the Collateralised GIC Account shall be identified and recorded only as part of a Designated Collateral Amount and recorded on the relevant Designated Covered Bond Swap Collateral Ledger and/or (ii) an Interest Rate Swap Agreement and deposited in the Collateralised GIC Account shall be identified and recorded only as part of a Designated Collateral Amount and recorded on the relevant Designated Interest Rate Swap Collateral Ledger, and in both cases may not be recorded as part of a Designated Mortgages Amount.

The sum of the Designated Mortgages Amount and the Designated Collateral Amount shall be equal to the amount standing to the credit of the Collateralised GIC Account plus, if applicable, any amounts identified by the Cash Manager as being required to be deposited in the Collateralised GIC Account but which have not yet been so deposited. If the Cash Manager designates a Designated Mortgages Amount in an amount greater than zero, the Cash Manager shall ensure that the Designated Mortgages Amount is at all times less than or equal to the Available Mortgage Collateral Amount calculated on the immediately preceding Calculation Date.

The Cash Manager shall, before depositing any funds into the Collateralised GIC Account, identify the amounts required to be collateralised by the posting of Eligible Credit Support under the Collateral Agreement and notify Nationwide as GIC Provider of the Designated Collateral Amount.

Any amounts representing Available Principal Receipts (for the purposes of this paragraph only, the **Principal Amount**) and Available Revenue Receipts which cannot be withdrawn from the Collateralised GIC Account while such amounts are collateralised (including, without limitation, in the event of a moratorium arising upon the insolvency, building society insolvency, administration or building society special administration of Nationwide or Nationwide being unable to pay these amounts) shall cease to constitute Available Principal Receipts or Available Revenue Receipts, respectively, and shall not be available to be applied in accordance with the applicable Priority of Payments; provided that any amounts recovered in respect of such principal amounts from realisation of the related Custody Collateral shall constitute Available Principal Receipts, save to the extent that any related Excess Collateral shall be paid to the GIC Provider and shall not constitute Available Principal Receipts, (up to an amount equal to the Principal Amount) and thereafter shall constitute Available Revenue Receipts and any amounts subsequently recovered in respect of such revenue amounts and amounts of interest from the realisation of the related Custody Collateral shall constitute Available Revenue Receipts, save to the extent that any related Excess Collateral shall be paid to the GIC Provider and shall not constitute Available Revenue Receipts. For the

avoidance of doubt, Swap Collateral shall be excluded from the calculations of and shall not constitute Available Principal Receipts or Available Revenue Receipts. Amounts recovered from the Collateralised GIC Account (and for the avoidance of doubt, excluding any recoveries made in respect of any Custody Collateral) shall constitute Available Revenue Receipts.

*Back-up Cash Manager*

The Cash Manager and the LLP each covenant that, on the Cash Manager ceasing to be assigned a long-term unsecured, unguaranteed and unsubordinated debt obligation rating by S&P of at least BBB- or by Fitch of at least BBB- or upon the Cash Manager ceasing to be assigned a long-term counterparty risk assessment by Moody's of at least Baa3(cr) (a **Back-Up Cash Manager Event**), they will use best endeavours (with, in the case of the LLP, the assistance of the Back-Up Cash Manager Facilitator) to identify and appoint a suitable third party to act as back-up or stand-by cash manager to the Cash Manager and to undertake back-up cash management services to the LLP within 60 days of such Back-Up Cash Manager Event.

Any Back-Up Cash Manager appointed on or after a Back-Up Cash Manager Event will be paid a fee with regard to the services it performs as agreed separately between the Issuer and the Back-Up Cash Manager (the **Back-Up Cash Manager Fee**). The amount of the Back-Up Cash Manager Fee will be added to the fees and costs that are payable to the Cash Manager in accordance with the relevant Priorities of Payment and the Cash Manangement Agreement, and the Cash Manager shall promptly following receipt of such amount pay the Back-Up Cash Manager Fee to the Back-Up Cash Manager or direct the LLP to pay such amounts directly to the Back-Up Cash Manager.

*Back-up Cash Manager Facilitator*

The LLP has appointed the Back-Up Cash Manager Facilitator as its agent, following the earlier to occur of a Back-Up Cash Manager Event and a Cash Manager Termination, in conjunction with the Cash Manager or, as applicable, the LLP, use best endeavours to identify, on behalf of the LLP, a suitable entity to provide, in the case of a Cash Manager Termination, cash management services to the LLP or, in the case of a Back-Up Cash Manager Event, back-up or stand-by cash management services to the Cash Manager in accordance with the terms of the Cash Management Agreement.

*Termination*

In certain circumstances the LLP and the Security Trustee will each have the right to terminate the appointment of the Cash Manager in which event the LLP will appoint a substitute (the identity of which will be subject to the Security Trustee's written approval). If the LLP or the Cash Manager (acting on its behalf) determines there is not a substitute cash manager which is willing to enter into a replacement cash management agreement with terms substantially similar to those set out in the Cash Management Agreement for a commercially reasonable fee taking into account prevailing market conditions, a replacement agreement may be entered into on reasonable commercial terms taking into account the then prevailing market conditions if the LLP or the Cash Manager certifies in writing to the Bond Trustee and the Security Trustee that the terms upon which it is proposed the back-up, stand-by or replacement cash manager will be appointed are reasonable commercial terms taking into account the then prevailing current market conditions.

In addition, the appointment of the Cash Manager may be terminated upon the expiry of not less than 60 days' written notice of termination given by the Cash Manager to the LLP, the Back-Up Cash Manager Facilitator, the Security Trustee and the Bond Trustee provided that a third party has been appointed to provide cash management services to the LLP, either pursuant to any back-up cash management agreement as contemplated under the terms of the Cash Management Agreement or otherwise, and that such appointment is effective on and from the date of such termination.

The Cash Management Agreement and any non-contractual obligations arising out of or in connection with it are governed by English law.

**Interest Rate Swap Agreement**

Some of the Loans in the Portfolio pay a variable rate of interest for a period of time that may be linked either to the Seller's Standard Variable Rate or linked to an interest rate other than the Seller's Standard Variable Rate, such as a rate that tracks the Bank of England base rate. Other Loans pay a fixed rate of interest for a period of time. However, the Sterling payments to be made by the LLP under the Covered Bond Swaps or the Term Advances under the Intercompany Loan Agreement are based on LIBOR for either three month Sterling deposits. To provide a hedge against the possible variance between:

(a) the rates of interest payable on the fixed rate loans, the BMR Loans, the SMR Loans and a certain percentage of tracker rate loans in the Portfolio; and

(b) LIBOR for three month Sterling deposits,

the LLP, the Interest Rate Swap Provider and the Security Trustee have entered into the Interest Rate Swap Agreement on or about the Initial Programme Date (as amended and/or supplemented and/or restated from time to time) and the Interest Rate Swaps (which, as per the definition of such term in the "*Glossary*" section below, means the Jumbo Interest Rate Swaps and the Reset Interest Rate Swaps) thereunder.

*Jumbo Interest Rate Swaps*

Each of the Jumbo Interest Rate Swaps (which, as per the definition of such term in the "*Glossary*" section below, means the Interest Rate Swap (BMR), the Interest Rate Swap (Fixed), the Interest Rate Swap (SMR) and the Interest Rate Swap (Tracker)) has a notional amount, for each Calculation Period, equal to:

- in respect of the Interest Rate Swap (Fixed), the aggregate True Balance of all fixed rate loans in the Portfolio on the first day of such Calculation Period;

- in respect of the Interest Rate Swap (BMR), the aggregate True Balance of all BMR Loans in the Portfolio on the first day of such Calculation Period;

- in respect of the Interest Rate Swap (SMR), the aggregate True Balance of all SMR Loans in the Portfolio on the first day of such Calculation Period; and

- in respect of the Interest Rate Swap (Tracker), the excess (if any) of the aggregate True Balance of all tracker rate loans in the Portfolio over an amount equal to 10 per cent. (or such lower percentage as may be agreed between the LLP and the relevant Interest Rate Swap Provider from time to time) of the aggregate True Balance of all Loans in the Portfolio, in each case, on the first day of such Calculation Period,

each such amount being a **Jumbo Interest Rate Swap Notional Amount**.

Under each Jumbo Interest Rate Swap, for each Calculation Period, the following amounts will be calculated:

- the amount produced by applying LIBOR for three month Sterling deposits (as determined on the first London Business Day of such Calculation Period) plus a spread (as specified in the relevant Jumbo Interest Rate Swap, or as subsequently specified as the spread applicable to the relevant Jumbo Interest Rate Swap in the most recent Final Terms of any Series of Covered Bonds issued, or as may otherwise be agreed between the LLP and relevant Interest Rate Swap Provider subject to (i) minimum yield protections, (ii) such revised spread not resulting in an Interest Rate Shortfall and

(iii) Rating Agency confirmation that such revised spread will not result in the then current ratings of the Covered Bonds being adversely affected or withdrawn) relating to that Calculation Period to the Jumbo Interest Rate Swap Notional Amount of such Jumbo Interest Rate Swap (known as the **Interest Rate Swap Provider Amount**); and

- the amount produced by applying a rate of interest equal to:

  (i) in respect of the Interest Rate Swap (BMR):

    (A) for so long as Nationwide Building Society is the Servicer in respect of the BMR Loans, the weighted average (by True Balance) of the rates of interest, linked to a standard variable rate charged to borrowers of such BMR Loans; and

    (B) otherwise, the average of the standard variable mortgage rate or its equivalent charged to existing borrowers on residential mortgage loans, as at the first day of such Calculation Period, after excluding the highest and the lowest rate, of the Reference Lenders (and where those banks or building societies have more than one standard variable mortgage rate, the highest of those rates) provided that each such standard variable mortgage rate or its equivalent shall be subject to a cap of Bank of England base rate plus 2.60%;

  (ii) in respect of the Interest Rate Swap (SMR):

    (A) for so long as Nationwide Building Society is the Servicer in respect of the SMR Loans, the weighted average (by True Balance) of the rates of interest, linked to a standard variable rate charged to borrowers of such SMR Loans; and

    (B) otherwise, the average of the standard variable mortgage rate or its equivalent charged to existing borrowers on residential mortgage loans, as at the first day of such Calculation Period, after excluding the highest and the lowest rate, of the Reference Lenders (and where those banks or building societies have more than one standard variable rate, the highest of those rates);

  (iii) in respect of the Interest Rate Swap (Tracker), the weighted average (by True Balance) of the rates of interest, linked to the Bank of England base rate charged to borrowers of the tracker rate loans; and

  (iv) in respect of the Interest Rate Swap (Fixed), the weighted average (by True Balance) of the rates of interest charged to borrowers of the fixed rate loans,

  in each case, for such Calculation Period to the relevant Jumbo Interest Rate Swap Notional Amount for such Calculation Period (known as the **LLP Amount**).

On each Calculation Date preceding each LLP Payment Date the following amounts will be calculated in respect of each Jumbo Interest Rate Swap:

- the relevant Interest Rate Swap Provider Amount for the preceding Calculation Period; and

- the relevant LLP Amount for the preceding Calculation Period.

If the amount available pursuant to the relevant Priority of Payments to make payments under all of the Jumbo Interest Rate Swaps is less than the aggregate of all LLP Amounts under the Jumbo Interest Rate Swaps, then each LLP Amount will be *pro rata* reduced by reference to such available amount (such that the aggregate of the LLP Amounts as so reduced equals the amount available pursuant to the relevant Priority of

Payments to make payments under all of the Jumbo Interest Rate Swaps) and each relevant shortfall will be carried over to the next Calculation Period under each such Jumbo Interest Rate Swap. A corresponding adjustment will be made to each relevant Interest Rate Swap Provider Amount.

After these two amounts are calculated in relation to each Jumbo Interest Rate Swap for an LLP Payment Date, the following payments will be made on that LLP Payment Date under each such Jumbo Interest Rate Swap (subject to payment netting between amounts payable on the same day and in the same currency under any other Interest Rate Swap governed by the same Interest Rate Swap Agreement):

- if the first amount is greater than the second amount, then the Interest Rate Swap Provider will pay the difference to the LLP;
- if the second amount is greater than the first amount, then the LLP will pay the difference to the Interest Rate Swap Provider; and
- if the two amounts are equal, neither party will make a payment to the other.

Subject to the early termination provisions of the Interest Rate Swap Agreement as outlined below, the Jumbo Interest Rate Swaps will each terminate on the earlier of the date on which the aggregate True Balance of all Loans in the Portfolio is reduced to zero and the Principal Amount Outstanding of all outstanding Covered Bonds is reduced to zero.

*Reset Interest Rate Swaps*

Each Reset Interest Rate Swap relates to a particular Series or Tranche of Covered Bonds and is entered into to hedge the possible variance between LIBOR for one month Sterling deposits and LIBOR for three month or one month Sterling deposits that matches the Sterling payments to be made by the LLP under the Covered Bond Swaps or the relevant Term Advance on the Interest Payment Date in respect of that Series or Tranche of Covered Bonds.

Pursuant to each Reset Interest Rate Swap, the Interest Rate Swap Provider will pay to the LLP, on each Interest Payment Date relating to the relevant Series or Tranche of Covered Bonds, LIBOR for one month or three month Sterling deposits (as applicable and determined, in each case, on the first day of the corresponding Interest Period) on the notional amount (the **Reset Notional Amount**) being equal to the aggregate Principal Amount Outstanding in respect of the relevant Series or Tranche of the Covered Bonds on the Issue Date (subject to any reductions to the extent of any Early Redemption Amount in respect of the relevant Series or Tranche of Covered Bonds pursuant to Condition 9.2 of the Covered Bonds, or any part of the Principal Amount Outstanding of any Covered Bonds of the relevant Series or Tranche purchased and cancelled pursuant to Conditions 6.6 and 6.7 of the Covered Bonds, or (if an Extended Due for Payment Date is specified as applicable in the Final Terms for a Series or Tranche of Covered Bonds and the payment of the amount corresponding to the Final Redemption Amount or any part of it by the LLP under the Covered Bond Guarantee is deferred until the relevant Extended Due for Payment Date pursuant to Condition 6.1 of the Covered Bonds) the Final Redemption Amount (or part thereof) paid in respect of the relevant Series or Tranche of Covered Bonds, in each case, on or prior to the first day of the Interest Period relating to such Interest Payment Date). In exchange, the LLP will pay to the Interest Rate Swap Provider, on each LLP Payment Date, LIBOR for one month Sterling deposits (as determined on the first London Business Day of the Calculation Period) on the Reset Notional Amount (which shall be subject to any of the reductions set out in the previous sentence but only to the extent that such reductions were effected on or prior to the first London Business Day of the Calculation Period immediately preceding such LLP Payment Date). Subject to the early termination provisions of the Interest Rate Swap Agreement as outlined below, each Reset Interest Rate Swap will terminate on the earlier of (i) the relevant Final Maturity Date or (if an Extended Due for Payment Date is specified as applicable in the Final Terms for a Series of Covered Bonds and the payment of the amount corresponding to the Final Redemption Amount or any part of it by the LLP under the Covered Bond Guarantee is deferred until the relevant Extended Due for Payment Date pursuant to

Condition 6.1 (Final redemption) of the Covered Bonds) the earlier of (A) the relevant Extended Due for Payment Date and (B) the Interest Payment Date on which the relevant Series or Tranche of Covered Bonds is redeemed in full, (ii) the final date on which the Security Trustee distributes the proceeds of the Security in accordance with the Post-Enforcement Priority of Payments following the enforcement of the Security pursuant to Condition 9.3, (iii) the date on which the relevant Series of Covered Bonds has been redeemed pursuant to Condition 9.2, (iv) the payment date on which the Reset Notional Amount is reduced to zero and (v) the date of redemption in respect of the relevant Series or Tranche of Covered Bonds pursuant to Condition 6.2, 6.3 or 6.4.

In the event that the relevant ratings of the Interest Rate Swap Provider, or any guarantor, as applicable, is or are, as applicable, downgraded by a Rating Agency below the ratings specified in the Interest Rate Swap Agreement (which are in accordance with the minimum ratings specified in the relevant ratings criteria of the Rating Agencies) for the Interest Rate Swap Provider, the Interest Rate Swap Provider will be required to take certain remedial measures which may include providing collateral for its obligations, arranging for its obligations to be transferred to an entity with ratings required by the relevant Rating Agency, procuring another entity with rating(s) required by the relevant Rating Agency to become co-obligor or guarantor in respect of its obligations, or taking such other action that will result in the rating of the Covered Bonds being maintained at, or restored to, the level in effect immediately prior to the downgrade. A failure to take such steps will allow the LLP to terminate the Interest Rate Swap Agreement.

The Interest Rate Swap Agreement may also be terminated in certain other circumstances (each referred to as an **Interest Rate Swap Early Termination Event**), including:

- at the option of any party to the Interest Rate Swap Agreement, if there is a failure by the other party to pay any amounts due under the Interest Rate Swap Agreement (for the avoidance of doubt, no such failure to pay by the Issuer will entitle the Interest Rate Swap Provider to terminate the Interest Rate Swap Agreement, if such failure is due to the assets available at such time to the LLP being insufficient to make the required payment in full); and

- upon the occurrence of the insolvency of the Interest Rate Swap Provider, or any guarantor and certain insolvency-related events in respect of the LLP, or the merger of the Interest Rate Swap Provider without an assumption of the obligations under the Interest Rate Swap Agreement.

Upon the termination of the Interest Rate Swap Agreement pursuant to an Interest Rate Swap Early Termination Event, the LLP or the Interest Rate Swap Provider may be liable to make a termination payment to the other in accordance with the provisions of the Interest Rate Swap Agreement.

If withholding taxes are imposed on payments made by the Interest Rate Swap Provider under the Interest Rate Swap Agreement, the Interest Rate Swap Provider shall always be obliged to gross up these payments save where such payments are imposed pursuant to FATCA. If withholding taxes are imposed on payments made by the LLP to the Interest Rate Swap Provider under the Interest Rate Swap Agreement, the LLP shall not be obliged to gross up those payments.

In relation to the Jumbo Interest Rate Swaps, if the LLP is required or permitted to sell Selected Loans in the Portfolio (i) following service of an Asset Coverage Test Breach Notice, (ii) in order to provide liquidity in respect of any Series of Hard Bullet Covered Bonds or for the purposes of funding or replenishing the Supplemental Liquidity Reserve Ledger, in either case following breach of the Pre-Maturity Test or (iii) following service of a Notice to Pay, then, to the extent that such Selected Loans include fixed rate loans, then the LLP may either:

(a) require, by written notice to the Interest Rate Swap Provider given not more than 20 and not less than 5 local Business Days in advance of the date of the relevant sale that the Interest Rate Swap (Fixed) in connection with such Selected Loans will partially terminate and any breakage costs

payable by or to the LLP in connection with such termination will be taken into account in calculating the Adjusted Required Redemption Amount for the sale of the Selected Loans; or

(b) with the prior written consent of the Interest Rate Swap Provider partially novate the Interest Rate Swap (Fixed) to the Purchaser of such Selected Loans, such that each Purchaser of Selected Loans will thereby become party to a separate interest rate swap transaction with the Interest Rate Swap Provider.

Under the Interest Rate Swap Agreement, the LLP's obligations are limited in recourse to the Charged Property.

The Interest Rate Swap Agreement and any non-contractual obligations arising out of or in connection with it are governed by English law.

**Covered Bond Swap Agreements**

The LLP has entered into one or more Covered Bond Swaps with one or more Covered Bond Swap Providers and the Security Trustee. Each Covered Bond Swap will provide a hedge against certain interest rate and currency risks in respect of amounts received by the LLP under the Loans and the Interest Rate Swaps and amounts payable by the LLP under the Intercompany Loan Agreement (prior to the service of a Notice to Pay on the LLP) and under the Covered Bond Guarantee in respect of Covered Bonds (after the service of a Notice to Pay on the LLP).

Where required to hedge such risks, there will be one (or more) Covered Bond Swap Agreement(s) and Covered Bond Swap(s) in relation to each Series or Tranche, as applicable, of Covered Bonds. In respect of each Series or Tranche of the Covered Bonds, the LLP will enter into (a) one or more basis swap transactions (each, a **Basis Covered Bond Swap**) and (b) one or more interest rate swap transactions (each, an **Interest Rate Covered Bond Swap**), each with the same Covered Bond Swap Provider and in respect of the same aggregate notional amount, being the aggregate Principal Amount Outstanding on the Issue Date of the applicable Series or Tranche of Covered Bond.

Under each Basis Covered Bond Swap, the LLP will pay to the relevant Covered Bond Swap Provider on the relevant Issue Date a portion of the amount received by the LLP under the applicable Term Advance (being an amount equal to the relevant portion of the Principal Amount Outstanding on the Issue Date of such Series or Tranche, as applicable, of Covered Bonds) and in return the Covered Bond Swap Provider will pay an amount equal to the Sterling Equivalent of such amount of the applicable Term Advance. Thereafter, the Covered Bond Swap Provider will pay monthly or quarterly to the LLP (subject to payment netting against the amounts payable by the LLP on the same day and in the same currency under the corresponding Interest Rate Covered Bond Swap) an amount in the Specified Currency (calculated by reference to a floating rate of interest for the relevant calculation period plus a spread or amount in the Specified Currency) equivalent to the amounts payable on such Interest Payment Date by the LLP under either the applicable Term Advance (or the relevant portion thereof) in accordance with the terms of the Intercompany Loan Agreement, as the case may be, or the Covered Bond Guarantee in respect of interest and/or principal payable under the relevant Series or Tranche of Covered Bonds (or the relevant portion thereof). In return, the LLP will pay monthly to the Covered Bond Swap Provider an amount in Sterling calculated by reference to LIBOR for three month Sterling deposits for such monthly calculation period plus a spread and the Sterling Equivalent of any such principal due in respect of the relevant Term Advance in accordance with the Intercompany Loan Agreement or the Covered Bond Guarantee (see "*Cashflows*").

If prior to the Final Maturity Date in respect of the relevant Series or Tranche of Covered Bonds or (if an Extended Due for Payment Date is specified as applicable in the Final Terms for a Series of Covered Bonds and the payment of the amount corresponding to the Final Redemption Amount or any part of it by the LLP under the Covered Bond Guarantee is deferred until the relevant Extended Due for Payment Date pursuant to Condition 6.1 (Final redemption) of the Terms and Conditions of the Covered Bonds) any Interest Payment

Date thereafter up to (and including) the relevant Extended Due for Payment Date, the LLP notifies (pursuant to the terms of the Basis Covered Bond Swap) the relevant Covered Bond Swap Provider of the amount in the Specified Currency to be paid by the Covered Bond Swap Provider on such Final Maturity Date or Interest Payment Date (such amount being equal to the relevant portion of the Final Redemption Amount payable by the LLP on such Final Maturity Date or Interest Payment Date under the Covered Bond Guarantee in respect of the relevant Series or Tranche of Covered Bonds), the Covered Bond Swap Provider will pay the LLP such amount and the LLP will pay the Covered Bond Swap Provider the Sterling Equivalent of such amount. Further, if on any day an Early Redemption Amount is payable pursuant to Condition 9.2 (LLP Events of Default), the Covered Bond Swap Provider will pay the LLP such amount (or the relevant portion thereof) and the LLP will pay the Covered Swap Provider the Sterling Equivalent thereof, following which the notional amount of the relevant Covered Bond Swaps will reduce accordingly.

Subject to the early termination provisions of the relevant Covered Bond Swap Agreement as outlined below, each Basis Covered Bond Swap will terminate on the earlier of: (i) the date on which the relevant Series of the Covered Bonds is redeemed pursuant to Condition 9.2 (LLP Events of Default) (ii) the relevant Final Maturity Date; (iii) the final date on which the Security Trustee distributes the proceeds of the Security in accordance with the Post-Enforcement Priority of Payments following the enforcement of the Security pursuant to Condition 9.3 (Enforcement); or (iv) (if an Extended Due for Payment Date is specified as applicable in the Final Terms for a Series of Covered Bonds and the payment of the amount corresponding to the Final Redemption Amount or any part of it by the LLP under the Covered Bond Guarantee is deferred until the relevant Extended Due for Payment Date pursuant to Condition 6.1 (Final redemption) of the Covered Bonds) the earlier of (a) the relevant Extended Due for Payment Date and (b) the Interest Payment Date on which the relevant Series or Tranche of Covered Bonds is redeemed in full.

Under an Interest Rate Covered Bond Swap, the relevant Covered Bond Swap Provider will pay to the LLP on each Interest Payment Date an amount equivalent to the amount of interest that would be payable, on such Interest Payment Date, by the LLP under either the relevant portion of the applicable Term Advance under the Intercompany Loan or, as the case may be, the relevant portion of the Covered Bond Guarantee in respect of the interest under the relevant Series or Tranche of the Covered Bonds. In return, the LLP will pay the Covered Bond Swap Provider the amount received on the relevant monthly or quarterly payment date under the corresponding Basis Covered Bond Swap (after giving effect to any payment netting provisions).

Each Interest Rate Covered Bond Swap will terminate in accordance with the termination provisions of the relevant Covered Bond Swap Agreement.

In respect of certain Covered Bond Swap Agreements where the Covered Bond Swap Provider under such Covered Bond Swap Agreement is not Nationwide or one of its affiliates, such Covered Bond Swap Provider may be required to provide collateral (in addition to Rating Agency collateral posting requirements detailed below) in an amount equal to the mark-to-market value of the relevant Covered Bond Swap.

Under the terms of each Covered Bond Swap Agreement, in the event that the relevant rating of the Covered Bond Swap Provider is downgraded by a Rating Agency below the rating(s) specified in the relevant Covered Bond Swap Agreement (which are in accordance with the minimum ratings specified in the relevant ratings criteria of the Rating Agencies at the time of entry into such Covered Bond Swap Agreement) for the Covered Bond Swap Provider, and, where applicable, as a result of the downgrade, the then current ratings of the Covered Bonds would or may, as applicable, be adversely affected, the Covered Bond Swap Provider will, in accordance with the relevant Covered Bond Swap Agreement, be required to take certain remedial measures which may include providing collateral for its obligations under the Covered Bond Swap Agreement, arranging for its obligations under the Covered Bond Swap Agreement to be transferred to an entity with the ratings required by the relevant Rating Agency, procuring another entity with the ratings required by the relevant Rating Agency to become co-obligor in respect of its obligations under the Covered Bond Swap Agreement, or taking such other action as will result in the rating of the Covered Bonds being maintained at, or restored to, the level in effect immediately prior to the downgrade. A failure to take such

steps will allow the LLP to terminate the Covered Bond Swaps entered into under that Covered Bond Swap Agreement (provided in certain circumstances that a replacement Swap Provider has been found).

A Covered Bond Swap Agreement may also be terminated in certain other circumstances (each referred to as a **Covered Bond Swap Early Termination Event**), including:

- at the option of any party to the Covered Bond Swap Agreement, if there is a failure by the other party to pay any amounts due under such Covered Bond Swap Agreement (for the avoidance of doubt, no such failure to pay by the Issuer will entitle the relevant Covered Bond Swap Provider to terminate the Covered Bond Swap Agreement, if such failure is due to the assets available at such time to the LLP being insufficient to make the required payment in full); and

- upon the occurrence of the insolvency of the relevant Covered Bond Swap Provider or any guarantor, and certain insolvency-related events in respect of the LLP or the merger of the Covered Bond Swap Provider without an assumption of the obligations under the relevant Covered Bond Swap Agreement.

Upon the termination of a Covered Bond Swap Agreement, the LLP or the relevant Covered Bond Swap Provider may be liable to make a termination payment to the other in accordance with the provisions of the relevant Covered Bond Swap Agreement. The amount of this termination payment will be calculated and made either in Sterling or, in respect of some Covered Bond Swap Agreements, in the same currency as the Series or Tranche of Covered Bonds to which such Covered Bond Swap Agreement relates.

Any termination payment made by the Covered Bond Swap Provider to the LLP in respect of a Covered Bond Swap Agreement will first be used (prior to the occurrence of an LLP Event of Default and service of an LLP Acceleration Notice and/or the commencement of winding-up proceedings against the LLP and/or realisation of the Security) to pay a replacement Covered Bond Swap Provider (or replacement Covered Bond Swap Providers) to enter into a replacement Covered Bond Swap with the LLP, unless a replacement Covered Bond Swap Agreement (or replacement Covered Bond Swap Agreements) has already been entered into on behalf of the LLP. Any premium received by the LLP from a replacement Covered Bond Swap Provider in respect of a replacement Covered Bond Swap will first be used to make any termination payment due and payable by the LLP with respect to the previous Covered Bond Swap Agreement, unless such termination payment has already been made on behalf of the LLP.

If withholding taxes are imposed on payments made by any Covered Bond Swap Provider to the LLP under a Covered Bond Swap Agreement, such Covered Bond Swap Provider shall always be obliged to gross up those payments save where such payments are imposed pursuant to FATCA. If withholding taxes are imposed on payments made by the LLP to the Covered Bond Swap Provider under a Covered Bond Swap Agreement, the LLP shall not be obliged to gross up those payments.

In the event that the Covered Bonds are redeemed and/or cancelled in accordance with the Conditions, the Covered Bond Swap(s) in connection with such Covered Bonds may terminate or partially terminate, as the case may be. Any breakage costs payable by or to the LLP in connection with such termination will be taken into account in calculating:

(a) the Adjustment Required Redemption Amount for the Sale of Selected Loans; and

(b) the purchase price to be paid for the relevant Covered Bonds purchased by the LLP in accordance with Condition 6.5 (Early Redemption Amounts).

Under each Covered Bond Swap Agreement, the LLP's obligations are limited in recourse to the Charged Property. To the extent that the LLP is unable to make any payment in full under any Covered Bond Swap due to its assets being insufficient to make such payment in full, the relevant Covered Bond Swap Provider's payment obligations will rateably reduce.

The Covered Bond Swap Agreements and any non-contractual obligations arising out of or in connection with them are (or, as applicable, will be) governed by English law.

**Bank Account Agreement**

Pursuant to the terms of the Bank Account Agreement entered into on the Initial Programme Date between the LLP, the Account Bank, the Cash Manager and the Security Trustee, the LLP will maintain with the Account Bank the accounts described below, which will be operated in accordance with the Cash Management Agreement, the LLP Deed and the Deed of Charge:

(a) the GIC Account into which amounts may be deposited by the LLP (including, following the occurrence of an Issuer Event of Default which is not cured within the applicable grace period, all amounts received from Borrowers in respect of Loans in the Portfolio). On each LLP Payment Date as applicable, amounts required to meet the LLP's various creditors and amounts to be distributed to the Members under the LLP Deed will be transferred to the Transaction Account (to the extent maintained);

(b) the Transaction Account (if such account is maintained) into which, moneys standing to the credit of the GIC Account will be transferred on each LLP Payment Date and applied by the Cash Manager in accordance with the Priorities of Payments described below under "*Cashflows*"; and

(c) the Collateralised GIC Account (if such account is maintained) into which Deposit Non-Reserved Amounts may be deposited, if Nationwide, as the entity which maintains the GIC Account, is rated below the Account Bank Required Rating and provided that such amounts are collateralised by mortgages (the **Designated Mortgages Amount**) or securities (the **Designated Collateral Amount**) in accordance with the provisions of the Cash Management Agreement and in the case of any Designated Collateral Amount, the Collateral Agreement. On any date upon which payment is due, amounts required to meet the Issuer's obligations to its various creditors are transferred to the Transaction Account.

If the unsecured, unsubordinated and unguaranteed debt obligation ratings of the Account Bank fall below A-1 short-term or A long-term (or, if not rated at least A-1 short-term, at least A+ long-term) by S&P or F1 short-term or A long-term by Fitch or the deposit ratings of the Account Bank fall below P-1 short-term or A2 long-term by Moody's (collectively, the **Account Bank Required Ratings**) then either:

- the GIC Account, the Transaction Account (to the extent maintained) will be closed and all amounts standing to the credit thereof shall be transferred to accounts held with a satisfactorily rated bank; or

- the Account Bank will obtain an unconditional and unlimited guarantee of its obligations under the Bank Account Agreement from a satisfactorily rated financial institution.

Notwithstanding the foregoing, in the event that Nationwide as Account Bank with respect to the Collateralised GIC Account does not have ratings at least equal to the Account Bank Required Ratings, Nationwide may continue to act as Account Bank in respect of the Collateralised GIC Account only and shall not be terminated on the basis of its ratings and it shall continue to operate and receive deposits of Deposit Non-Reserved Amounts and Swap Collateral cash amounts into the Collateralised GIC Account, provided that the conditions set forth in the Cash Management Agreement are met. For so long as Nationwide's "Issuer Default Ratings" remain below BBB- by Fitch, no monies shall be credited to the Collateralised GIC Account.

The LLP may open additional or replacement bank accounts and custody accounts with Additional Account Banks, the Stand-by Account Bank, the Stand-by GIC Provider, any Additional Stand-by Account Bank or any Additional Stand-by GIC Account Bank subject to the terms set out in the Deed of Charge. Each Additional Account Bank shall enter into an account bank agreement with the LLP, the Cash Manager and

the Security Trustee on terms substantially similar to the Bank Account Agreement or in the case of Swap Collateral posted in the form of securities, in such other form as the Issuer, the Cash Manager, the relevant Account Bank and any applicable Swap Provider may agree, provided that the entry into such agreement will not result in any downgrade of the then current rating of the Covered Bonds.

The Bank Account Agreement and any non-contractual obligations arising out of or in connection with it are governed by English law.

**GIC Collateral Custody Account**

In the event that any collateral is posted by Nationwide pursuant to the Collateral Agreement, the LLP shall instruct the Cash Manager to open a custody account in the name of the LLP with a third party custodian pursuant to an Eligible Custody Arrangement for the purposes of holding such collateral (any such account, a **GIC Collateral Custody Account**). In the event that any such GIC Collateral Custody Account is opened, the LLP, the Cash Manager, Nationwide and the Security Trustee will enter into an agreement in respect of such GIC Collateral Custody Account with the LLP on customary market standard terms that will not result in a downgrade, withdrawal or qualification of the then current ratings of the Covered Bonds.

Eligible Collateral will be ring-fenced from other Custody Collateral held by the Eligible GIC Custodian.

**Collateral Agreement**

Prior to the Cash Manager initially depositing amounts into the Collateralised GIC Account which it designates as the Designated Collateral Amount, the LLP and Nationwide as the entity at which the Collateralised GIC Account is maintained shall have entered into a Collateral Agreement. Prior to the LLP entering into a Collateral Agreement, the Cash Manager shall (on behalf of the LLP) procure an Eligible Custody Arrangement in connection with opening the relevant GIC Collateral Custody Account.

**Stand-by Bank Account Agreement**

Pursuant to the terms of a stand-by bank account agreement entered into on the Initial Programme Date between the LLP, Citibank, N.A. (the **Stand-by Account Bank**), the Cash Manager and the Security Trustee (the **Stand-by Bank Account Agreement**), the LLP will open with the Stand-by Account Bank a stand-by GIC account (the **Stand-by GIC Account**) and a stand-by transaction account (the **Stand-by Transaction Account**) if the LLP cannot find a replacement account bank in accordance with the terms of the Bank Account Agreement or the Account Bank cannot obtain an unconditional and unlimited guarantee of its obligations or if the Account Bank ceases to maintain the Account Bank Required Ratings, and the Bank Account Agreement is subsequently terminated or if the Bank Account Agreement is terminated for other reasons. The Stand-by GIC Account and the Stand-by Transaction Account will be operated in accordance with the Cash Management Agreement, the LLP Deed and the Deed of Charge.

If the short term, unsecured, unsubordinated and unguaranteed debt obligations of the Standby Account Bank fall below A-1 by S&P, P-1 by Moody's or F1 by Fitch there will be a requirement that the Stand-by Account Bank either be replaced by, or have its obligations guaranteed by, a satisfactorily rated financial institution.

References in this Base Prospectus to the GIC Account or the Transaction Account include references to the Stand-by GIC Account or the Stand-by Transaction Account when the Stand-by GIC Account and the Stand-by Transaction Account become operative.

The Stand-by Bank Account Agreement and any non-contractual obligations arising out of or in connection with it are governed by English law.

**Guaranteed Investment Contract**

The LLP has entered into a Guaranteed Investment Contract (or **GIC**) with the GIC Provider, the Cash Manager and the Security Trustee on the Initial Programme Date, pursuant to which the GIC Provider has agreed to pay interest on the moneys standing to the credit thereof at specified rates determined in accordance with the GIC.

The Guaranteed Investment Contract and any non-contractual obligations arising out of or in connection with it are governed by English law.

**Stand-by Guaranteed Investment Contract**

The LLP has entered into a stand-by guaranteed investment contract with Citibank, N.A. (the **Stand-by GIC Provider**) on the Initial Programme Date (the **Stand-by Guaranteed Investment Contract**), pursuant to which the Stand-by GIC Provider has agreed to pay interest on the Standby GIC Account at specified rates determined in accordance with the Stand-by Guaranteed Investment Contract.

The Stand-by Guaranteed Investment Contract and any non-contractual obligations arising out of or in connection with it are governed by English law.

**Corporate Services Agreement**

The Liquidation Member and Holdings have entered into a Corporate Services Agreement with, *inter alios*, Wilmington Trust SP Services (London) Limited, (as Corporate Services Provider) on the Initial Programme Date, pursuant to which the Corporate Services Provider has agreed to provide corporate services to the Liquidation Member and Holdings respectively.

The Corporate Services Agreement and any non-contractual obligations arising out of or in connection with it are governed by English law.

**Deed of Charge**

Pursuant to the terms of the Deed of Charge entered into by the LLP, the Security Trustee and the other Secured Creditors, the secured obligations of the LLP and all other obligations of the LLP under or pursuant to the Transaction Documents to which it is a party are secured, *inter alia*, by the following security (the **Security**) over the following property, assets and rights (the **Charged Property**):

(a) a first fixed charge (which may take effect as a floating charge) over the LLP's interest in the English Loans, Northern Irish Loans and their Related Security and other related rights comprised in the Portfolio;

(b) an assignment by way of first fixed charge over the rights of the LLP in and to the Insurance Policies;

(c) a Scottish supplemental charge constituting an assignation in security of the LLP's interest in the Scottish Loans and their Related Security (comprising the LLP's beneficial interest under the trusts declared by the Seller pursuant to the Scottish Declarations of Trust);

(d) an assignment by way of first fixed security over all of the LLP's interests, rights and entitlements under and in respect of any Transaction Document to which it is a party (other than the Deed of Charge and any Scottish Declaration of Trust) (and, in respect of the Interest Rate Swap Agreement and Covered Bond Swap Agreement, after giving effect to all applicable netting provisions therein);

(e) a first fixed charge (which may take effect as a floating charge) over the rights and benefits of the LLP in the LLP Accounts (except for the Covered Bond Swap Collateral Accounts, the Interest Rate

Swap Collateral Accounts, the Stand-by Covered Bond Swap Collateral Accounts, the Stand-by Interest Rate Swap Collateral Accounts, the GIC Collateral Custody Account and any amounts standing to the credit of the Collateralised GIC Account that are recorded as a credit on the applicable Designated Covered Bond Swap Collateral Ledger or applicable Designated Interest Rate Swap Collateral Ledger) (including any Excess Proceeds) and any other account of the LLP and all amounts standing to the credit of the LLP Accounts (except for the Covered Bond Swap Collateral Accounts, the Interest Rate Swap Collateral Accounts, the Stand-by Covered Bond Swap Collateral Accounts, the Stand-by Interest Rate Swap Collateral Accounts, the GIC Collateral Custody Account and any amounts standing to the credit of the Collateralised GIC Account that are recorded as a credit on the applicable Designated Covered Bond Swap Collateral Ledger or applicable Designated Interest Rate Swap Collateral Ledger) and such other accounts;

(f) a first fixed charge (which may take effect as a floating charge) over the rights and benefits of the LLP in respect of all Authorised Investments and Substitution Assets purchased from time to time from amounts standing to the credit of the LLP Accounts (except for the Covered Bond Swap Collateral Accounts, the Interest Rate Swap Collateral Accounts, the Stand-by Covered Bond Swap Collateral Accounts, the Stand-by Interest Rate Swap Collateral Accounts, any GIC Collateral Custody Account and any amounts standing to the credit of the Collateralised GIC Account that are recorded as a credit on the applicable Designated Covered Bond Swap Collateral Ledger or applicable Designated Interest Rate Swap Collateral Ledger);

(g) a first fixed charge (which may take effect as a floating charge) over the rights and benefits of the LLP in each Covered Bond Swap Collateral Account, Stand-by Covered Bond Swap Collateral Account, Interest Rate Swap Collateral Account and Stand-by Interest Rate Swap Collateral Account and any amounts standing to the credit of the Collateralised GIC Account that are recorded as a credit on the applicable Designated Covered Bond Swap Collateral Ledger or applicable Designated Interest Rate Swap Collateral Ledger and in respect of all Authorised Investments and Substitution Assets purchased from time to time from amounts standing to the credit of the Covered Bond Swap Collateral Accounts, Stand-by Covered Bond Swap Collateral Accounts, the Stand-by Covered Bond Swap Collateral Accounts, the Stand-by Interest Rate Swap Collateral Accounts, the GIC Collateral Custody Account and any amounts standing to the credit of the Collateralised GIC Account that are recorded as a credit on the applicable Designated Covered Bond Swap Collateral Ledger or applicable Designated Interest Rate Swap Collateral Ledger, provided that any amounts standing to the credit of a Covered Bond Swap Collateral Account, Stand-by Covered Bond Swap Collateral Account, Interest Rate Swap Collateral Account or Stand-by Interest Rate Swap Collateral Account or any amounts standing to the credit of the Collateralised GIC Account that are recorded as a credit on the applicable Designated Covered Bond Swap Collateral Ledger or applicable Designated Interest Rate Swap Collateral Ledger shall be held solely for the benefit of the relevant Swap Provider and the LLP until required to be applied pursuant to the relevant Swap Agreement;

(h) a first fixed charge (which may take effect as a floating charge) over the rights and benefits of the LLP in and to all monies or, if applicable securities standing to the credit of the applicable GIC Collateral Custody Account and the debts represented by them together with all rights relating or attached thereto (including the right to interest) and (ii) any custody agreement relating to a GIC Collateral Custody Account shall be held solely for the benefit of the GIC Provider and the LLP until required to be applied pursuant to the relevant Collateral Agreement; and

(i) a first floating charge over all the assets and undertaking of the LLP (including the assets and undertaking of the LLP located in Scotland or governed by Scots law and the assets and undertaking of the LLP located in Northern Ireland or governed by the law of Northern Ireland).

In respect of the property, rights and assets referred to in paragraph (c) above, fixed security will be created over such property, rights and assets sold to the LLP after the Programme Date by means of Scottish Supplemental Charges pursuant to the Deed of Charge.

**Release of Security**

In the event of any sale of Loans (including Selected Loans) and their Related Security by the LLP pursuant to and in accordance with the Transaction Documents, the Security Trustee will (subject to the written request of the LLP), release those Loans from the Security created by and pursuant to the Deed of Charge on or prior to the date of such sale but only if:

(a) the Security Trustee provides its prior written consent to the terms of such sale as described under "*LLP Deed – Method of Sale of Selected Loans*" above; and

(b) in the case of the Sale of Selected Loans, the LLP provides to the Security Trustee a certificate confirming that the Selected Loans being sold have been selected on a random basis.

In the event of the repurchase of a Loan and its Related Security by the Seller pursuant to and in accordance with the Transaction Documents, the Security Trustee will release that Loan from the Security created by and pursuant to the Deed of Charge on the date of the repurchase.

**Enforcement**

If an LLP Acceleration Notice is served on the LLP, the Security Trustee shall be entitled to appoint a Receiver, and/or enforce the Security constituted by the Deed of Charge (including selling the Portfolio), and/or take such steps as it shall deem necessary, subject in each case to being indemnified and/or secured to its satisfaction. All proceeds received by the Security Trustee from the enforcement or realisation of the Security will be applied in accordance with the Post-Enforcement Priority of Payments described under "*Cashflows*".

The Deed of Charge and any non-contractual obligations arising out of or in connection with it are governed by English law (other than the Scottish Supplemental Charge referred to in paragraph (c) above and any further Scottish Supplemental Charge granted after the Programme Date pursuant and supplemental to the Deed of Charge which will be governed by Scots law and the first fixed charge over the Northern Irish Loans and their Related Security and the floating charge over the assets and undertaking of the LLP located in or governed by the law of Northern Ireland which will be governed by Northern Irish law).

## CREDIT STRUCTURE

The Covered Bonds will be direct, unsecured, unconditional obligations of the Issuer. The LLP has no obligation to pay the Guaranteed Amounts under the Covered Bond Guarantee until the occurrence of an Issuer Event of Default, service by the Bond Trustee on the Issuer of an Issuer Acceleration Notice and on the LLP of a Notice to Pay or, if earlier, following the occurrence of an LLP Event of Default, service by the Bond Trustee of an LLP Acceleration Notice. The Issuer will not be relying on payments by the LLP in respect of the Term Advances or receipt of Revenue Receipts or Principal Receipts from the Portfolio in order to pay interest or repay principal under the Covered Bonds.

There are a number of features of the Programme which enhance the likelihood of timely and, as applicable, ultimate payments to holders of the Covered Bonds, as follows:

- the Covered Bond Guarantee provides credit support to the Issuer;
- the Pre-Maturity Test is intended to provide liquidity to the LLP in respect of principal due on the Final Maturity Date of Hard Bullet Covered Bonds;
- the Asset Coverage Test is intended to test the asset coverage of the LLP's assets in respect of the Covered Bonds at all times;
- the Amortisation Test is intended to test the asset coverage of the LLP's assets in respect of the Covered Bonds following the occurrence of an Issuer Event of Default, service of an Issuer Acceleration Notice on the Issuer and service of a Notice to Pay on the LLP;
- a Reserve Fund (unless Nationwide's short term unsecured, unsubordinated and unguaranteed debt obligations are rated at least A-1+ by S&P and F1+ by Fitch and Nationwide is assigned a counterparty risk assessment by Moody's of at least P-1(cr)) will be established in the GIC Account to trap Available Revenue Receipts; and
- under the terms of the Guaranteed Investment Contract, the GIC Provider has agreed to pay a variable rate of interest on all amounts held by the LLP in the GIC Account at a rate of 0.25% per annum below LIBOR for one-month Sterling deposits or such greater amount as the LLP and the GIC Provider may agree from time to time.

Certain of these factors are considered more fully in the remainder of this section.

In addition, the Issuer is required to comply with the terms of the Regulated Covered Bonds Regulations, as to which see further "*Description of the UK Covered Bond Regime*" below.

### Guarantee

The Covered Bond Guarantee provided by the LLP under the Trust Deed guarantees payment of Guaranteed Amounts when the same become Due for Payment in respect of all Covered Bonds issued under the Programme. The Covered Bond Guarantee will not guarantee any amount becoming payable for any other reason, including any accelerated payment pursuant to Condition 9 (Events of Default and Enforcement) following the occurrence of an Issuer Event of Default. In this circumstance (and until an LLP Event of Default occurs and an LLP Acceleration Notice is served), the LLP's obligations will only be to pay the Guaranteed Amounts as they fall Due for Payment. A6.1

See further "*Summary of the Principal Documents – Trust Deed*" as regards the terms of the Covered Bond Guarantee. See further "*Cashflows – Guarantee Priority of Payments*" as regards the payment of amounts

payable by the LLP to holders of the Covered Bonds and other Secured Creditors following the occurrence of an Issuer Event of Default.

**Pre-Maturity Liquidity**

Certain Series of Covered Bonds are scheduled to be redeemed in full on the Final Maturity Date therefore without any provision for scheduled redemption other than on the Final Maturity Date (the **Hard Bullet Covered Bonds**). The applicable Final Terms will identify whether any Series of Covered Bonds is a Series of Hard Bullet Covered Bonds. The Pre-Maturity Test is intended to provide liquidity for the Hard Bullet Covered Bonds when the Issuer's credit ratings fall to a certain level. On each London Business Day (each the **Pre-Maturity Test Date**) prior to the occurrence of an Issuer Event of Default or the occurrence of an LLP Event of Default, the LLP or the Cash Manager on its behalf will determine if the Pre-Maturity Test has been breached, and if so, it shall immediately notify the Members and the Security Trustee thereof.

The Issuer will fail and be in breach of the **Pre-Maturity Test** on a Pre-Maturity Test Date if:

(a) the Issuer's short-term credit rating from S&P falls to below A-1 and the Final Maturity Date of the Series of Hard Bullet Covered Bonds will fall within 12 months from the relevant Pre-Maturity Test Date; or

(b) (i) the Issuer is assigned a long-term counterparty risk assessment by Moody's below A2(cr); or (ii) the Issuer is assigned a short-term counterparty risk assessment by Moody's of below P-1(cr) and in either case the Final Maturity Date of any Series of Hard Bullet Covered Bonds will fall within 12 months from the relevant Pre-Maturity Test Date; or

(c) the Issuer's short-term credit rating from Fitch falls to below F1+ and the Final Maturity Date of the Series of Hard Bullet Covered Bonds will fall within 12 months from the relevant Pre-Maturity Test Date.

(each a **Supplemental Liquidity Event**).

Following a breach of the Pre-Maturity Test in respect of a Series of Covered Bonds:

(a) any Revenue Receipts and Principal Receipts standing to the credit of any GIC Account on the date of such breach shall be credited to the Pre-Maturity Liquidity Ledger up to an amount not exceeding the Required Redemption Amount for each Series of Hard Bullet Covered Bonds in respect of which the Pre-Maturity Test has been breached; and

(b) no further issuance of Covered Bonds shall be permissible under the Programme Agreement, except as described below,

provided that the restriction on the issuance of Covered Bonds set out in the preceding Clause (b) shall cease to be applicable following either (i) the exercise by any Member (other than the Liquidation Member) of its option (whether or not directed to do so by the Management Committee) to either (a) make a Cash Capital Contribution to the LLP in accordance with the LLP Deed or (b) repurchase Loans, or (ii) the making of an Intercompany Loan to the LLP funded by the issue of Soft Bullet Covered Bonds by the Issuer, in each case, in an amount at least equal to the Required Redemption Amount for the relevant Series of Hard Bullet Covered Bonds less any amounts then standing to the credit of the Pre-Maturity Liquidity Ledger that are not otherwise required to repay any Series of Hard Bullet Covered Bonds which mature prior to or on the same date as the relevant Series of Hard Bullet Covered Bonds. The proceeds from any Intercompany Loan from any such issue of Soft Bullet Covered Bonds will be first applied to make up any shortfall to the Pre-Maturity Liquidity Ledger.

The restriction on Covered Bond issuances set out above following the breach of the Pre-Maturity Test shall cease to be applicable following: (a) the exercise of any of the options in (i) and (ii) in the preceding paragraph; or (b) if the balance standing to the credit of the Pre-Maturity Ledger has reached an amount equal to the Required Redemption Amount for all the relevant Series of Hard Bullet Covered Bonds in respect of which the Pre-Maturity Test is breached.

Any issuance of Hard Bullet Covered Bonds which takes place whilst the Issuer is in breach of the Pre-Maturity Test but following the balance standing to the credit of the Pre-Maturity Ledger having reached an amount equal to the Required Redemption Amount for all the relevant Series of Hard Bullet Covered Bonds in respect of which the Pre-Maturity Test has been breached, must have a Final Maturity Date which is more than 12 months after the relevant Issue Date.

Amounts may not be withdrawn from any GIC Account to the extent that the Pre-Maturity Liquidity Ledger is debited, other than to redeem the relevant series of Hard Bullet Bonds, except where such withdrawal would still result in a credit balance at least equal to the Required Redemption Amount for all relevant Series of Hard Bullet Covered Bonds.

In certain circumstances, Revenue Receipts will also be available to repay a Hard Bullet Covered Bond, as described in "*Cashflows - Pre-Acceleration Revenue Priority of Payments*" below.

Failure by the Issuer and/or the LLP to pay the full amount due in respect of a Series of Hard Bullet Covered Bonds on the Final Maturity Date thereof will constitute an Issuer Event of Default. Following service of a Notice to Pay on the LLP, the LLP shall apply funds standing to the Pre-Maturity Liquidity Ledger to repay the relevant Series of Hard Bullet Covered Bonds. If the Issuer and/or the LLP fully repay the relevant Series of Hard Bullet Covered Bonds on the Final Maturity Date thereof, cash standing to the credit of the Pre-Maturity Liquidity Ledger on the relevant GIC Account shall be applied by the LLP in accordance with the Pre-Acceleration Principal Priority of Payments, unless:

(a) the Issuer is failing the Pre-Maturity Test in respect of any other Series of Hard Bullet Covered Bonds, in which case the cash will remain on the Pre-Maturity Liquidity Ledger in order to provide liquidity for that other Series of Hard Bullet Covered Bonds but only to the extent required to maintain an amount equal to the Required Redemption Amount for the relevant Series of Hard Bullet Covered Bonds in respect of which the Pre-Maturity Test is breached; or

(b) the Issuer is not failing the Pre-Maturity Test, but the Management Committee elects to retain the cash on the Pre-Maturity Liquidity Ledger in order to provide liquidity for any future Series of Hard Bullet Covered Bonds.

Amounts standing to the credit of the Pre-Maturity Liquidity Ledger following the repayment of the Hard Bullet Covered Bonds as described above may, except where the Management Committee has elected or is required to retain such amounts on the Pre-Maturity Liquidity Ledger, also be used to repay the corresponding Term Advance and distribute any excess Available Principal Receipts back to the Members on dates other than LLP Payment Dates, subject to the LLP making provision for higher ranking items in the Pre-Acceleration Principal Priority of Payments.

**Asset Coverage Test**

The Asset Coverage Test is intended to ensure that the LLP can meet its obligations under the Covered Bond Guarantee and senior ranking expenses which will include costs relating to the maintenance, administration and winding-up of the Asset Pool whilst the Covered Bonds are outstanding. Under the LLP Deed, the LLP and its Members (other than the Liquidation Member) must ensure that on each Calculation Date the Adjusted Aggregate Loan Amount will be in an amount equal to or in excess of the aggregate Principal Amount Outstanding of the Covered Bonds as calculated on the relevant Calculation Date. If on any Calculation Date the Asset Coverage Test is not satisfied and such failure is not remedied on or before the

next following Calculation Date, the Asset Coverage Test will be breached and the Bond Trustee will serve an Asset Coverage Test Breach Notice on the LLP. The Asset Coverage Test is a formula which adjusts the True Balance of each Loan in the Portfolio and has further adjustments to take account of set-off on a Borrower's current or deposit accounts held with the Seller, set-off associated with drawings made by Borrowers under Flexible Loans and failure by the Seller, in accordance with the Mortgage Sale Agreement, to repurchase Defaulted Loans or Loans that do not materially comply with the Representations and Warranties on the relevant Transfer Date.

See further "*Summary of the Principal Documents – LLP Deed – Asset Coverage Test*", above.

An Asset Coverage Test Breach Notice will be revoked if, on any Calculation Date falling on or prior to the third Calculation Date following the service of the Asset Coverage Test Breach Notice, the Asset Coverage Test is satisfied and neither a Notice to Pay nor an LLP Acceleration Notice has been served.

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

The Issuer is additionally required to ensure that the principal amount of the eligible property in the Asset Pool is greater than 108% of the Principal Amount Outstanding of the Covered Bonds in accordance with the terms of the RCB Regulations. See further "*Description of the UK Regulated Covered Bond Regime*" below.

**Amortisation Test**

The Amortisation Test is intended to ensure that if, following an Issuer Event of Default, service of an Issuer Acceleration Notice on the Issuer and the service of a Notice to Pay on the LLP (but prior to service on the LLP of an LLP Acceleration Notice and/or the commencement of winding-up proceedings against the LLP and/or realisation of the Security), the assets of the LLP available to meet its obligations under the Covered Bond Guarantee fall to a level where holders of the Covered Bonds may not be repaid, an LLP Event of Default will occur and all amounts owing under the Covered Bonds may be accelerated. Under the LLP Deed, the LLP and its Members (other than the Liquidation Member) must ensure that, on each Calculation Date following an Issuer Event of Default and the service of a Notice to Pay on the LLP, the Amortisation Test Aggregate Loan Amount will be in an amount at least equal to the aggregate Principal Amount Outstanding of the Covered Bonds as calculated on the relevant Calculation Date. The Amortisation Test is a formula which adjusts the True Balance of each Loan in the Portfolio and has further adjustments to take account of Loans in arrears. See further "*Summary of the Principal Documents – LLP Deed – Amortisation Test*", above.

**Reserve Fund**

The LLP will be required (unless Nationwide's short term unsecured, unsubordinated and unguaranteed debt obligations are rated at least A-1+ by S&P and F1+ by Fitch and Nationwide is assigned a counterparty risk assessment by Moody's of at least P-1(cr)), to establish the Reserve Fund on the GIC Account which will be credited with Available Revenue Receipts up to an amount equal to the Reserve Fund Required Amount. The LLP will not be required to maintain the Reserve Fund following the occurrence of an Issuer Event of Default.

The Reserve Fund will be funded from Available Revenue Receipts after the LLP has paid all of its obligations in respect of items ranking higher than the Reserve Ledger in the Pre-Acceleration Revenue Priority of Payments on each LLP Payment Date.

A Reserve Ledger will be maintained by the Cash Manager to record the balance from time to time of the Reserve Fund. Following the occurrence of an Issuer Event of Default and service of a Notice to Pay on the LLP, amounts standing to the credit of the Reserve Fund will be added to certain other income of the LLP in calculating Available Revenue Receipts.

## CASHFLOWS

As described above under "*Credit Structure*", until a Notice to Pay or LLP Acceleration Notice is served on the LLP, the Covered Bonds will be obligations of the Issuer only. The Issuer is liable to make payments when due on the Covered Bonds, whether or not it has received any corresponding payment from the LLP.

This section summarises the Priorities of Payments of the LLP, as to the allocation and distribution of amounts standing to the credit of the LLP Accounts (except for the Covered Bond Swap Collateral Accounts and the Stand-by Covered Bond Swap Collateral Accounts) and their order of priority:

(a) prior to service on the LLP of an Asset Coverage Test Breach Notice, a Notice to Pay or an LLP Acceleration Notice and/or the commencement of winding-up proceedings against the LLP and/or realisation of the Security;

(b) following service of an Asset Coverage Test Breach Notice (and for so long as it has not been revoked);

(c) following service of a Notice to Pay; and

(d) following service of an LLP Acceleration Notice but prior to the realisation of the Security and/or the commencement of winding-up proceedings against the LLP.

If the Transaction Account is closed in accordance with the terms of the Bank Account Agreement, any payment to be made to or from the Transaction Account shall, as applicable, be made to or from any GIC Account or, if applicable, the Collateralised GIC Account, or no payment shall be made at all if such payment is expressed to be from any GIC Account to the Transaction Account.

**Allocation and distribution of Available Revenue Receipts prior to the service of an Asset Coverage Test Breach Notice (which has not been revoked), a Notice to Pay or an LLP Acceleration Notice.**

Prior to service of an Asset Coverage Test Breach Notice (which has not been revoked), a Notice to Pay or an LLP Acceleration Notice on the LLP and/or the commencement of winding-up proceedings against the LLP and/or realisation of the Security, Available Revenue Receipts will be allocated and distributed as described below.

On the Calculation Date immediately preceding each LLP Payment Date, the LLP or the Cash Manager on its behalf shall calculate:

(a) the amount of Available Principal Receipts and Available Revenue Receipts available for distribution on the immediately following LLP Payment Date and the Reserve Fund Required Amount (if applicable);

(b) where the Pre-Maturity Test has been breached in respect of a Series of Hard Bullet Covered Bonds, on each Calculation Date falling on the later to occur of the Calculation Date following the breach of the Pre-Maturity Test and the first Calculation Date falling in the eleven months prior to the Final Maturity Date of the relevant Series of Hard Bullet Covered Bonds, whether or not the amount standing to the credit of the Pre-Maturity Liquidity Ledger at such date is less than the Required Redemption Amount for the relevant Series of Hard Bullet Covered Bonds at such date (together with the Required Redemption Amount of all other Series of Hard Bullet Covered Bonds which mature prior to or on the same date as the relevant Series of Hard Bullet Covered Bonds); and

(c) the Reserve Fund Required Amount if applicable.

**Pre-Acceleration Revenue Priority of Payments**

On each LLP Payment Date, the LLP or the Cash Manager on its behalf will transfer Available Revenue Receipts from any GIC Account or, if applicable, the Collateralised GIC Account to the Transaction Account (to the extent maintained), in an amount equal to the lower of (a) the amount required to make the payments described below and (b) the amount of Available Revenue Receipts.

Prior to service of an Asset Coverage Test Breach Notice (which has not been revoked), a Notice to Pay or service of an LLP Acceleration Notice on the LLP and/or the commencement of winding-up proceedings against the LLP and/or realisation of the Security, Available Revenue Receipts will be applied by or on behalf of the LLP on each LLP Payment Date (except for amounts due to third parties by the LLP under paragraph (a) or Third Party Amounts, which shall be paid when due) in making the following payments and provisions (the **Pre-Acceleration Revenue Priority of Payments**) (in each case only if and to the extent that payments or provisions of a higher priority have been made in full):

(a) *first*, in or towards satisfaction of any amounts due and payable by the LLP to third parties and incurred without breach by the LLP of the Transaction Documents to which it is a party (and for which payment has not been provided for elsewhere in the relevant Priorities of Payments) and to provide for any such amounts expected to become due and payable by the LLP in the immediately succeeding LLP Payment Period and to pay and discharge any liability of the LLP for taxes;

(b) *second*, in or towards satisfaction *pro rata* and *pari passu* according to the respective amounts thereof of:

(i) any remuneration then due and payable to the Servicer and any costs, charges, liabilities and expenses then due or to become due and payable to the Servicer (including, without limitation, any amounts payable by the Servicer to any Back-Up Servicer appointed pursuant to the terms of the Servicing Agreement) under the provisions of the Servicing Agreement in the immediately succeeding LLP Payment Period, together with applicable VAT (or other similar taxes) thereon to the extent provided therein;

(ii) any remuneration then due and payable to the Cash Manager and any costs, charges, liabilities and expenses then due or to become due and payable to the Cash Manager (including, without limitation, any amounts payable by the Cash Manager to any Back-Up Cash Manager appointed pursuant to the terms of the Cash Management Agreement) under the provisions of the Cash Management Agreement in the immediately succeeding LLP Payment Period, together with applicable VAT (or other similar taxes) thereon to the extent provided therein;

(iii) amounts (if any) due and payable to an Account Bank (or, as applicable, any Stand-by Account Bank) (including costs) pursuant to the terms of the Bank Account Agreement (or, as applicable, the Stand-by Bank Account Agreement), together with applicable VAT (or other similar taxes) thereon to the extent provided therein;

(iv) amounts due and payable to the Corporate Services Provider pursuant to the terms of the Corporate Services Agreement together with applicable VAT (or other similar taxes) thereon as provided therein;

(v) amounts (if any) due and payable to the FCA in respect of fees owed to the FCA under the RCB Regulations (other than the initial registration fees) together with applicable VAT (or other similar taxes) thereon;

(vi) amounts due and payable to the Asset Monitor pursuant to the terms of the Asset Monitor Agreement (other than the amounts referred to in paragraph (i) below), together with applicable VAT (or other similar taxes) thereon to the extent provided therein;

(vii) any remuneration then due and payable to the Back-Up Servicer Facilitator and any costs, charges, liabilities and expenses then due or to become due and payable to the Back-Up Servicer Facilitator under the provisions of the Servicing Agreement in the immediately succeeding LLP Payment Period, together with applicable VAT (or other similar taxes) thereon to the extent provided therein; and

(viii) any remuneration then due and payable to the Back-Up Cash Manager Facilitator and any costs, charges, liabilities and expenses then due or to become due and payable to the Back-Up Cash Manager Facilitator under the provisions of the Cash Management Agreement in the immediately succeeding LLP Payment Period, together with applicable VAT (or other similar taxes) thereon to the extent provided therein;

(c) *third*, in or towards payment *pro rata* and *pari passu* of any amount due to the Interest Rate Swap Provider (including any termination payment due and payable by the LLP under the Interest Rate Swap Agreement (but excluding any Excluded Swap Termination Amount)) pursuant to the terms of the Interest Rate Swap Agreement;

(d) *fourth*, in or towards payment on the LLP Payment Date or to provide for payment on such date in the future of such proportion of the relevant payment falling due in the future as the Cash Manager may reasonably determine (and in the case of any such payment or provision, after taking into account any provisions previously made and any amounts (excluding Swap Collateral which does not constitute Swap Collateral Available Amounts) receivable from the Interest Rate Swap Provider under the Interest Rate Swap Agreement and, if applicable, any amounts (other than principal or in respect of Swap Collateral which does not constitute Swap Collateral Available Amounts) receivable from a Covered Bond Swap Provider under the relevant Covered Bond Swap Agreement on the LLP Payment Date or such date in the future as the Cash Manager may reasonably determine), of

(i) any amounts due or to become due and payable to the Covered Bond Swap Providers (other than in respect of principal under the Covered Bond Swaps) *pro rata* and *pari passu* in respect of each relevant Covered Bond Swap (including any termination payment (other than in relation to principal) due and payable by the LLP under the relevant Covered Bond Swap Agreement, but excluding any Excluded Swap Termination Amount) (except to the extent that such amounts have been paid out of any premiums received from the relevant replacement Swap Providers) pursuant to the terms of the relevant Covered Bond Swap Agreements; and

(ii) if the LLP is required to make a deposit to the Pre-Maturity Liquidity Ledger in accordance with Clause 12.8 above, towards a credit to any GIC Account with a corresponding credit to that Ledger of an amount up to but not exceeding the difference between:

(A) the Required Redemption Amount as calculated on the immediately preceding Calculation Date for the relevant Series of Hard Bullet Covered Bonds; and

(B) any amounts standing to the credit of the Pre-Maturity Liquidity Ledger on the immediately preceding Calculation Date after deducting from that Ledger the Required Redemption Amounts of all other Series of Hard Bullet Covered Bonds as calculated on that Calculation Date which mature prior to or on the same date as the relevant Series of Hard Bullet Covered Bonds;

(e) *fifth*, in or towards any amounts due to become due and payable (excluding principal amounts), *pro rata* and *pari passu* in respect of each relevant Term Advance to the Issuer pursuant to the terms of the Intercompany Loan;

(f) *sixth*, if a Servicer Event of Default has occurred, all remaining Available Revenue Receipts to be credited to any GIC Account or the Collateralised GIC Account (with a corresponding credit to the Revenue Ledger) until such Servicer Event of Default is either remedied by the Servicer or waived by the Security Trustee or a new servicer is appointed to service the Portfolio (or the relevant part thereof);

(g) *seventh*, in or towards a credit to the Reserve Ledger on any GIC Account of an amount up to but not exceeding the amount by which the Reserve Fund Required Amount exceeds the existing balance on the Reserve Ledger as calculated on the immediately preceding Calculation Date;

(h) *eighth*, payment *pro rata* and *pari passu* in accordance with the respective amounts thereof of any Excluded Swap Termination Amounts due and payable by the LLP under the Covered Bond Swap Agreements and the Interest Rate Swap Agreement;

(i) *ninth*, in or towards payment *pro rata* and *pari passu* in accordance with the respective amounts thereof of any indemnity amount due to the Asset Monitor pursuant to the Asset Monitor Agreement, and any indemnity amount due to the Members and if Nationwide is not then a Member of the LLP, towards repayment of the Issuer Subordinated Loan pursuant to the LLP Deed;

(j) *tenth*, in or towards payment of Deferred Consideration due to the Seller for the transfer of the Loans and their Related Security to the LLP, to pay all remaining Available Revenue Receipts (except for an amount equal to the fee payable to the Liquidation Member in accordance with (j) and an amount equal to the profit to be paid to the Members in accordance with (l) below) to the Seller;

(k) *eleventh*, in or towards payment of the fee due to the Liquidation Member; and

(l) *twelfth*, towards payment *pro rata* and *pari passu* to the Members of a certain sum (specified in the LLP Deed) as their profit for their respective interests as Members in the LLP,

*provided that* if an LLP Payment Date is not the same as an Interest Payment Date, Available Revenue Receipts will be applied initially on the Interest Payment Date in payment of any amount due to the Covered Bond Swap Providers under paragraph (d)(i) above but only to the extent that adequate provision is made for any payments of a higher priority to be made in full on the immediately succeeding LLP Payment Date.

Any amounts (excluding Swap Collateral which does not constitute Swap Collateral Available Amounts) received by the LLP under the Interest Rate Swap Agreement on or after the LLP Payment Date but prior to the next following LLP Payment Date will be applied, together with any provision for such payments made on any preceding LLP Payment Date, to make payments (other than in respect of principal) due and payable *pro rata* and *pari passu* in respect of each relevant Covered Bond Swap under the Covered Bond Swap Agreements or, as the case may be, in respect of each relevant Term Advance under the Intercompany Loan Agreement unless an Asset Coverage Test Breach Notice has been served and not been revoked or otherwise to make provision for such payments on such date in the future of such proportion of the relevant payment falling due in the future as the Cash Manager may reasonably determine.

Any amounts (other than in respect of principal but excluding Swap Collateral which does not constitute Swap Collateral Available Amounts) received by the LLP under a Covered Bond Swap on or after the LLP Payment Date but prior to the next following LLP Payment Date will be applied, together with any provision for such payments made on any preceding LLP Payment Date, to make payments (other than principal) due and payable *pro rata* and *pari passu* in respect of each relevant Term Advance under the Intercompany Loan Agreement or otherwise to make provision for such payments on such date in the future of such proportion

of the relevant payment falling due in the future of such proportion of the relevant payment falling due in the future as the Cash Manager may reasonably determine unless an Asset Coverage Test Breach Notice has been served and not been revoked.

Any amounts (excluding Swap Collateral which does not constitute Swap Collateral Available Amounts) received under the Interest Rate Swap Agreement and any amounts (other than in respect of principal but excluding Swap Collateral which does not constitute Swap Collateral Available Amounts) received under the Covered Bond Swap Agreements on the LLP Payment Date or on any date prior to the next succeeding LLP Payment Date which are not put towards a payment or provision in accordance with paragraph (d) above or the preceding two paragraphs will be credited to the Revenue Ledger on the relevant GIC Account or the Collateralised GIC Account and applied as Available Revenue Receipts on the next succeeding LLP Payment Date.

If any Swap Collateral Available Amounts are received by the LLP on an LLP Payment Date, such amounts shall be applied by the LLP (or by the Cash Manager on its behalf) on that LLP Payment Date in the same manner as it would have applied the receipts which such Swap Collateral Available Amounts replace.

If any Excess Hedge Collateral is held or received by the LLP at any time, such amounts will be paid on their due date to the applicable Swap Provider in accordance with the terms of the applicable Swap Agreement.

**Allocation and Distribution of Principal Receipts prior to service of a Notice to Pay**

Prior to service on the LLP of an Asset Coverage Test Breach Notice (which has not been revoked), a Notice to Pay or an LLP Acceleration Notice and/or the commencement of winding-up proceedings against the LLP and/or realisation of the Security, Principal Receipts will be allocated and distributed as described below.

On each Calculation Date, the LLP or the Cash Manager on its behalf will calculate the amount of Available Principal Receipts available for distribution on the immediately following LLP Payment Date.

On each LLP Payment Date, the LLP or the Cash Manager on its behalf will transfer funds from any GIC Account or, if applicable, the Collateralised GIC Account to the Transaction Account (to the extent maintained), in an amount equal to the lower of (a) the amount required to make the payments or credits described below and (b) the amount of all Available Principal Receipts standing to the credit of the relevant GIC Account.

If an LLP Payment Date is the same as an Interest Payment Date, then the distribution of Available Principal Receipts under the Pre-Acceleration Principal Priority of Payments will be delayed until the Issuer has made scheduled interest and/or principal payments on that Interest Payment Date unless payment is made by the LLP directly to the Bond Trustee (or the Principal Paying Agent at the direction of the Bond Trustee).

**Pre-Acceleration Principal Priority of Payments**

Prior to service on the LLP of an Asset Coverage Test Breach Notice (which has not been revoked), a Notice to Pay or an LLP Acceleration Notice and/or the commencement of winding-up proceedings against the LLP and/or realisation of the Security, all Available Principal Receipts (including any Cash Capital Contributions made from time to time by the Seller in its capacity as a Member) which have not otherwise been applied by or on behalf of the LLP on each LLP Payment Date in making the following payments and provisions (the **Pre-Acceleration Principal Priority of Payments**):

(a) *first*, if the Pre-Maturity Test has been failed by the Issuer in respect of any Series of Hard Bullet Covered Bonds, to credit all Principal Receipts to the Pre-Maturity Liquidity Ledger in an amount up to but not exceeding the difference between:

(i) the Required Redemption Amount calculated on the immediately preceding Calculation Date for the relevant Series of Hard Bullet Covered Bonds; and

(ii) any amounts standing to the credit of the Pre-Maturity Liquidity Ledger on the immediately preceding Calculation Date after deducting from that Ledger the Required Redemption Amount of all other Hard Bullet Covered Bonds, as calculated on that Calculation Date, which mature prior to or on the same date as the relevant Series of Hard Bullet Covered Bonds,

(b) *second*, to acquire New Loans and their Related Security offered to the LLP by the Seller in accordance with the terms of the Mortgage Sale Agreement in an amount sufficient to ensure that taking into account the other resources available to the LLP, the LLP is in compliance with the Asset Coverage Test and thereafter to acquire Substitution Assets;

(c) *third*, to deposit the remaining Principal Receipts in the relevant GIC Account or, if applicable, the Collateralised GIC Account (with a corresponding credit to the Principal Ledger) in an amount sufficient to ensure that taking into account the other resources available to the LLP, the LLP is in compliance with the Asset Coverage Test;

(d) *fourth*, in or towards repayment on the LLP Payment Date (or to provide for repayment on such date in the future of such proportion of the relevant payment falling due in the future as the Cash Manager may reasonably determine) of the corresponding Term Advance related to such Series of Covered Bonds by making the following payments:

(i) the amounts (in respect of principal) due or to become due and payable to the relevant Covered Bond Swap Providers *pro rata* and *pari passu* in respect of each relevant Basis Covered Bond Swap (including any termination payment (relating solely to principal) due and payable by the LLP under the relevant Covered Bond Swap Agreements, but excluding any Excluded Swap Termination Amount) (except to the extent that such amounts have been paid out of any premiums received from the relevant replacement Swap Providers) in accordance with the terms of the relevant Covered Bond Swap Agreement; and

(ii) (where appropriate, after taking into account any amounts in respect of principal receivable from a Covered Bond Swap Provider on the LLP Payment Date or such date in the future as the Cash Manager may reasonably determine) the amounts (in respect of principal) due or to become due and payable to the Issuer *pro rata* and *pari passu* in respect of each relevant Term Advance,

(e) *fifth*, subject to complying with the Asset Coverage Test, to make a Capital Distribution to each Member (other than the Liquidation Member) or, if Nationwide is not then a Member of the LLP, towards repayment of the Issuer Subordinated Loan by way of distribution of its equity in the LLP in accordance with the LLP Deed.

Unless an Asset Coverage Test Breach Notice has been served and not been revoked, any amounts in respect of principal received by the LLP under a Covered Bond Swap on or after the LLP Payment Date but prior to the next following LLP Payment Date will be applied, together with any provision for such payments made on any preceding LLP Payment Date, (provided that all principal amounts outstanding under the related Series of Covered Bonds which have fallen due for repayment on such date have been repaid in full by the Issuer), to make payments in respect of principal due and payable to the Issuer in respect of the corresponding Term Advance under the Intercompany Loan Agreement or otherwise to make provision for such payments on such date in the future of such proportion of the relevant payment falling in the future as the Cash Manager may reasonably determine.

Any amounts of principal received under the Covered Bond Swap Agreements on the LLP Payment Date or any date prior to the next succeeding LLP Payment Date which are not put towards a payment or provision in accordance with paragraph (d) above or the preceding paragraph will be credited to the Principal Ledger on the relevant GIC Account or, if applicable, the Collateralised GIC Account and applied as Available Principal Receipts on the next succeeding LLP Payment Date.

**Allocation and distribution of Available Revenue Receipts and Available Principal Receipts following service of an Asset Coverage Test Breach Notice**

At any time after service on the LLP of an Asset Coverage Test Breach Notice (which has not been revoked), but prior to service of a Notice to Pay or service of an LLP Acceleration Notice and/or the commencement of winding-up proceedings against the LLP and/or realisation of the Security, all Available Revenue Receipts and Available Principal Receipts will continue to be applied in accordance with the Pre-Acceleration Revenue Priority of Payments and the Pre-Acceleration Principal Priority of Payments save that, whilst any Covered Bonds remain outstanding, no moneys will be applied under paragraphs (e), (i) (to the extent only that such amounts are payable to the Members), (j) or (l) of the Pre-Acceleration Revenue Priority of Payments or paragraphs (b), (d)(ii) or (e) of the Pre-Acceleration Principal Priority of Payments.

**Allocation and Distribution of Available Revenue Receipts and Available Principal Receipts following service of a Notice to Pay**

At any time after service of a Notice to Pay on the LLP, but prior to service of an LLP Acceleration Notice and/or the commencement of winding-up proceedings against the LLP, all Available Revenue Receipts and Available Principal Receipts (other than Third Party Amounts) will be applied as described below under "*Guarantee Priority of Payments*".

On each LLP Payment Date, the LLP or the Cash Manager on its behalf will transfer Available Revenue Receipts and Available Principal Receipts from the Revenue Ledger, the Reserve Ledger, the Principal Ledger or the Capital Account Ledger, as the case may be, to the Payment Ledger on the relevant GIC Account or, if applicable, the Collateralised GIC Account, in an amount equal to the lower of (a) the amount required to make the payments set out in the Guarantee Priority of Payments and (b) the amount of all Available Revenue Receipts and Available Principal Receipts standing to the credit of such ledgers on the relevant GIC Account or, if applicable, the Collateralised GIC Account.

The LLP created and maintains ledgers for each Series of Covered Bonds and record amounts allocated to such Series of Covered Bonds in accordance with paragraph (e) of the Guarantee Priority of Payments below, and such amounts, once allocated, will only be available to pay amounts due under the Covered Bond Guarantee and amounts due under the Covered Bond Swap in respect of the relevant Series of Covered Bonds on the scheduled repayment dates thereof.

**Guarantee Priority of Payments**

If a Notice to Pay is served on the LLP in connection with the Pre-Maturity Test (as set out in the LLP Deed), the LLP shall on the relevant Final Maturity Date apply all moneys standing to the credit of the Pre-Maturity Liquidity Ledger (and transferred to the Transaction Account on the relevant LLP Payment Date) to repay the relevant Series of Hard Bullet Covered Bonds in accordance with the LLP Deed (as described in "*Credit Structure – Pre-Maturity Liquidity*"). Subject thereto, on each LLP Payment Date after the service of a Notice to Pay on the LLP (but prior to the occurrence of an LLP Event of Default), the LLP or the Cash Manager on its behalf will apply Available Revenue Receipts and Available Principal Receipts to make the following payments and provisions in the following order of priority (the **Guarantee Priority of Payments**) (in each case only if and to the extent that payments or provisions of a higher priority have been made in full):

(a) *first*, in or towards satisfaction *pro rata* and *pari passu* according to the respective amounts thereof of:

(i) all amounts due and payable or to become due and payable to the Bond Trustee in the immediately succeeding LLP Payment Period under the provisions of the Trust Deed together with interest and applicable VAT (or other similar taxes) thereon as provided therein; and

(ii) all amounts due and payable or to become due and payable to the Security Trustee in the immediately succeeding LLP Payment Period under the provisions of the Deed of Charge together with interest and applicable VAT (or other similar taxes) thereon as provided therein;

(b) *second*, in or towards satisfaction *pro rata* and *pari passu* according to the respective amounts thereof of:

(i) any remuneration then due and payable to the Agents under the provisions of the Agency Agreement together with applicable VAT (or other similar taxes) thereon as provided therein; and

(ii) any amounts then due and payable by the LLP to third parties and incurred without breach by the LLP of the Transaction Documents to which it is a party (and for which payment has not been provided for elsewhere) and to provide for any such amounts expected to become due and payable by the LLP in the immediately succeeding LLP Payment Period and to pay or discharge any liability of the LLP for taxes;

(c) *third*, in or towards satisfaction *pro rata* and *pari passu* according to the respective amounts thereof of:

(i) any remuneration then due and payable to the Servicer and any costs, charges, liabilities and expenses then due or to become due and payable to the Servicer in the immediately succeeding LLP Payment Period under the provisions of the Servicing Agreement (including, without limitation, any amounts payable by the Servicer to any stand-by servicer or Back-Up Servicer appointed pursuant to the terms of the Servicing Agreement) together with applicable VAT (or other similar taxes) thereon to the extent provided therein;

(ii) any remuneration then due and payable to the Cash Manager and any costs, charges, liabilities and expenses then due or to become due and payable to the Cash Manager in the immediately succeeding LLP Payment Period under the provisions of the Cash Management Agreement (including, without limitation, any amounts payable by the Cash Manager to any stand-by cash manager or Back-Up Cash Manager appointed pursuant to the terms of the Cash Management Agreement), together with applicable VAT (or other similar taxes) thereon to the extent provided therein;

(iii) amounts (if any) due and payable to an Account Bank (or, as applicable, any Stand-by Bank Account) (including costs) pursuant to the terms of the Bank Account Agreement (or, as applicable, the Stand-by Bank Account Agreement), together with applicable VAT (or other similar taxes) thereon to the extent provided therein;

(iv) amounts due and payable to the Corporate Services Provider pursuant to the Corporate Services Agreement together with applicable VAT (or similar taxes) thereon as provided therein;

(v) amounts (if any) due and payable to the FCA under the RCB Regulations (other than the initial registration fees) together with applicable VAT (or other similar taxes) thereon;

(vi) amounts due and payable to the Asset Monitor (other than the amounts referred to in paragraph (j) below) pursuant to the terms of the Asset Monitor Agreement, together with applicable VAT (or other similar taxes) thereon as provided therein;

(b) any remuneration then due and payable to the Back-Up Servicer Facilitator and any costs, charges, liabilities and expenses then due or to become due and payable to the Back-Up Servicer Facilitator in the immediately succeeding LLP Payment Period under the provisions of the Servicing Agreement, together with applicable VAT (or other similar taxes) thereon to the extent provided therein; and

(c) any remuneration then due and payable to the Back-Up Cash Manager Facilitator and any costs, charges, liabilities and expenses then due or to become due and payable to the Back-Up Cash Manager Facilitator in the immediately succeeding LLP Payment Period under the provisions of the Cash Management Agreement, together with applicable VAT (or other similar taxes) thereon to the extent provided therein;

(d) *fourth*, in or towards satisfaction *pro rata* and *pari passu* according to the respective amounts thereof, of any amounts due and payable to the Interest Rate Swap Provider (including any termination payment due and payable by the LLP under the Interest Rate Swap Agreement but excluding any Excluded Swap Termination Amount) pursuant to the terms of the Interest Rate Swap Agreements;

(e) *fifth*, to pay *pro rata* and *pari passu* according to the respective amounts thereof, of:

(i) the amounts due and payable to the relevant Covered Bond Swap Provider (other than in respect of principal under the Covered Bond Swaps) *pro rata* and *pari passu* in respect of each relevant Series of Covered Bonds (including any termination payment (other than in respect of principal) due and payable by the LLP under the relevant Covered Bond Swap Agreement but excluding any Excluded Swap Termination Amount) in accordance with the terms of the relevant Covered Bond Swap Agreement; and

(ii) to the Bond Trustee or (if so directed by the Bond Trustee) the Principal Paying Agent on behalf of the holders of the Covered Bonds *pro rata* and *pari passu* Scheduled Interest that is Due for Payment (or will become Due for Payment in the immediately succeeding LLP Payment Period) under the Covered Bond Guarantee in respect of each Series of Covered Bonds,

provided that if the amount available for distribution under this paragraph (e) (excluding any amounts received from the Covered Bond Swap Provider) would be insufficient to pay the Sterling Equivalent of the Scheduled Interest that is Due for Payment in respect of each Series of Covered Bonds under (ii) above, the shortfall shall be divided amongst all such Series of Covered Bonds on a *pro rata* basis and the amount payable by the LLP to the relevant Covered Bond Swap Provider in respect of each relevant Series of Covered Bonds under (e)(i) above shall be reduced by the amount of the shortfall applicable to the Covered Bonds in respect of which such payment is to be made;

(f) *sixth*, to pay or provide for *pro rata* and *pari passu* according to the respective amounts thereof, of:

(i) the amounts (in respect of principal under the Covered Bond Swaps) due and payable to the relevant Covered Bond Swap Provider *pro rata* and *pari passu* in respect of each relevant Series of Covered Bonds (including any termination payment (relating solely to principal) due and payable by the LLP under the relevant Covered Bond Swap Agreement but

excluding any Excluded Swap Termination Amount) in accordance with the terms of the relevant Covered Bond Swap Agreement; and

(ii) to the Bond Trustee or (if so directed by the Bond Trustee) the Principal Paying Agent on behalf of the holders of the Covered Bonds *pro rata* and *pari passu* Scheduled Principal that is Due for Payment (or will become Due for Payment in the immediately succeeding LLP Payment Period) under the Covered Bond Guarantee in respect of each Series of Covered Bonds,

provided that if the amount available for distribution under this paragraph (f) (excluding any amounts received from the Covered Bond Swap Provider) in respect of the amounts referred to in (f)(i) above would be insufficient to pay the Sterling Equivalent of the Scheduled Principal that is Due for Payment in respect of the relevant Series of Covered Bonds under (f)(ii) above, the shortfall shall be divided amongst all such Series of Covered Bonds on a *pro rata* basis and the amount payable by the LLP to the relevant Covered Bond Swap Provider in respect of each relevant Series of Covered Bonds under (f)(i) above shall be reduced by the amount of the shortfall applicable to the Covered Bonds in respect of which such payment is to be made;

(g) *seventh*, to deposit the remaining moneys in any GIC Account or, if applicable, the Collateralised GIC Account for application on the next following LLP Payment Date in accordance with the priority of payments described in paragraphs (a) to (f) (inclusive) above, until the Covered Bonds have been fully repaid or provided for (such that the Required Redemption Amount has been accumulated in respect of each outstanding Series of Covered Bonds);

(h) *eighth*, in or towards satisfaction *pro rata* and *pari passu* according to the respective amounts thereof of any Excluded Swap Termination Amount due and payable by the LLP to the relevant Swap Provider under the relevant Swap Agreement;

(i) *ninth*, after the Covered Bonds have been fully repaid or provided for (such that the Required Redemption Amount has been accumulated in respect of each outstanding Series of Covered Bonds), any remaining moneys will be applied in and towards repayment in full of amounts outstanding under the Intercompany Loan Agreement;

(j) *tenth*, in or towards satisfaction *pro rata* and *pari passu* according to the respective amounts thereof of any indemnity amount due to the Members (and, if Nationwide is not then a Member of the LLP, towards repayment of the Issuer Subordinated Loan) pursuant to the LLP Deed and certain costs, expenses and indemnity amounts due by the LLP to the Asset Monitor pursuant to the Asset Monitor Agreement; and

(k) *eleventh*, thereafter any remaining moneys will be applied in accordance with the LLP Deed.

**Termination payments received in respect of Swaps, premiums received in respect of replacement Swaps**

If the LLP receives any termination payment from a Swap Provider in respect of a Swap Agreement, such termination payment will first be used (prior to the occurrence of an LLP Event of Default and service of an LLP Acceleration Notice and/or the commencement of winding-up proceedings against the LLP and/or realisation of the Security) to pay a replacement Swap Provider(s) to enter into a replacement Swap Agreement(s) with the LLP, unless a replacement Swap Agreement(s) has already been entered into on behalf of the LLP. If the LLP receives any premium from a replacement Swap Provider in respect of a replacement Swap Agreement, such premium will first be used to make any termination payment due and payable by the LLP with respect to the previous Swap Agreement(s), unless such termination payment has already been made on behalf of the LLP.

**Application of moneys received by the Security Trustee following the occurrence of an LLP Event of Default and enforcement of the Security, realisation of the Security and/or the commencement of winding-up proceedings against the LLP**

Under the terms of the Deed of Charge, subject to Regulations 28 and 29 of the RCB Regulations, all moneys received or recovered by the Security Trustee (or a Receiver appointed on its behalf) (excluding all amounts due or to become due in respect of any Third Party Amounts and excluding (i) any amounts standing to the credit of the Covered Bond Swap Collateral Accounts, the Interest Rate Swap Collateral Accounts, the Stand-by Covered Bond Swap Collateral Accounts, the Stand-by Interest Rate Swap Collateral Accounts or the Collateralised GIC Account (where such amounts are recorded as a credit on a Designated Covered Bond Swap Collateral Ledger or a Designated Interest Rate Swap Collateral Ledger as the case may be) comprising Excess Hedge Collateral and (ii) any amounts standing to the credit of any GIC Collateral Custody Account comprising Excess Collateral) following the enforcement of the Security, the service of an LLP Acceleration Notice and/or the commencement of winding-up proceedings against the LLP will be applied in the following order of priority (the **Post-Enforcement Priority of Payments**) (in each case only if and to the extent that payments or provisions of a higher priority have been made in full):

(a) *first*, in or towards satisfaction *pro rata* and *pari passu* according to the respective amounts thereof of:

(i) all amounts due and payable or to become due and payable to:

(A) the Bond Trustee under the provisions of the Trust Deed together with interest and applicable VAT (or other similar taxes) thereon as provided therein; and

(B) to the Security Trustee and any Receiver appointed by the Security Trustee under the provisions of the Deed of Charge together with interest and applicable VAT (or other similar taxes) thereon to the extent provided therein;

(ii) any remuneration then due and payable to the Agents under or pursuant to the Agency Agreement together with applicable VAT (or other similar taxes) thereon to the extent provided therein;

(iii) amounts in respect of:

(A) any remuneration then due and payable to the Servicer, Back-Up Servicer and/or Back-Up Servicer Facilitator and any costs, charges, liabilities and expenses then due or to become due and payable to the Servicer, Back-Up Servicer and/or Back-Up Servicer Facilitator under the provisions of the Servicing Agreement and Back-Up Servicing Agreement, as applicable, together with applicable VAT (or other similar taxes) thereon to the extent provided therein;

(B) any remuneration then due and payable to the Cash Manager, Back-Up Cash Manager and/or Back-Up Cash Manager Facilitator and any costs, charges, liabilities and expenses then due or to become due and payable to the Cash Manager, Back-Up Cash Manager and/or Back-Up Cash Manager Facilitator under the provisions of the Cash Management Agreement and Back-Up Cash Management Agreement, as applicable, together with applicable VAT (or other similar taxes) thereon to the extent provided therein;

(C) amounts due to an Account Bank or, as applicable, any Stand-by Account Bank (including costs) pursuant to the terms of the Bank Account Agreement or, as applicable, the Stand-by Bank Account Agreement, together with applicable VAT (or other similar taxes) thereon to the extent provided therein; and

(D) amounts (including costs and expenses) due to the Corporate Services Provider pursuant to the terms of the Corporate Services Agreement together with applicable VAT (or other similar taxes) thereon to the extent provided therein;

(iv) any amounts due and payable to the Interest Rate Swap Provider (including any termination payment (but excluding any Excluded Swap Termination Amounts)) pursuant to the terms of the Interest Rate Swap Agreement;

(v) all amounts due and payable:

(A) to the relevant Covered Bond Swap Provider *pro rata* and *pari passu* in respect of each relevant Series of Covered Bonds (including any termination payment due and payable by the LLP under the relevant Covered Bond Swap Agreement (but excluding any Excluded Swap Termination Amount)) in accordance with the terms of the relevant Covered Bond Swap Agreement; and

(B) under the Covered Bond Guarantee, to the Bond Trustee on behalf of the holders of the Covered Bonds *pro rata* and *pari passu* in respect of interest and principal due and payable on each Series of Covered Bonds,

provided that if the amount available for distribution under this paragraph (v) (excluding any amounts received from any Covered Bond Swap Provider in respect of amounts referred to in (v)(A) above) would be insufficient to pay the Sterling Equivalent of the amounts due and payable under the Covered Bond Guarantee in respect of each Series of Covered Bonds under (v)(B) above, the shortfall shall be divided amongst all such Series of Covered Bonds on a *pro rata* basis and the amount payable by the LLP to the relevant Covered Bond Swap Provider in respect of each relevant Series of Covered Bonds shall be reduced by the amount of the shortfall applicable to the Covered Bonds in respect of which such payment is to be made;

(b) *second*, in or towards satisfaction *pro rata* and *pari passu* according to the respective amounts thereof, of any Excluded Swap Termination Amounts due and payable by the LLP to the relevant Swap Provider under the relevant Swap Agreement;

(c) *third*, after the Covered Bonds have been fully repaid, any remaining moneys shall be applied in or towards repayment in full of all amounts outstanding under the Intercompany Loan Agreement;

(d) *fourth*, towards payment of any indemnity amount due to the Members (and, if Nationwide is not then a Member of the LLP, towards repayment of the Issuer Subordinated Loan) pursuant to the LLP Deed; and

(e) *fifth*, thereafter any remaining moneys shall be applied in or towards payment to the Members (and, if Nationwide is not then a Member of the LLP, towards repayment of the Issuer Subordinated Loan) pursuant to the LLP Deed,

The above Post-Enforcement Priority of Payments is subject to the provisions of Regulations 27, 28 and 29 of the RCB Regulations. In particular, costs properly incurred by a receiver, liquidator, provisional liquidator, administrator, administrative receiver or manager of the LLP in relation to:

(i) persons providing services for the benefit of Covered Bondholders (which is likely to include the persons listed in paragraph (a) above (excluding the Swap Providers));

(ii) the Swap Providers in respect of amounts due to them under paragraph (a) above; and

(iii) any other persons providing a loan to the LLP to enable it to meet the claims of Covered Bondholders or the costs of the people described in paragraphs (i) and (ii) above (e.g. liquidity loans),

shall be expenses which shall be payable out of the proceeds of realisation of the Security (in the case of a receivership) or the assets of the LLP (in the case of an administration, winding up or provisional liquidation), and shall rank equally among themselves in priority to all other expenses (including the claims of Covered Bondholders). See further, "*Risk Factors – Expenses of Insolvency officeholders*".

## THE PORTFOLIO

The Initial Portfolio and each New Portfolio acquired by the LLP (the **Portfolio**), consists (or will consist) of Loans and their Related Security originated by the Seller (which includes building societies subsumed into the Seller, including Portman Building Society, Staffordshire Building Society and Anglia Building Society) and sold by the Seller to the LLP from time to time, in accordance with the terms of the Mortgage Sale Agreement, as more fully described under "*Summary of the Principal Documents – Mortgage Sale Agreement*".

For the purposes hereof:

**Initial Portfolio** means the portfolio of Loans and their Related Security referred to in the Mortgage Sale Agreement as at the Initial Programme Date (other than any Loans and their Related Security which have been redeemed in full prior to the First Transfer Date), and all right, title, interest and benefit of the Seller in and to:

(a) all payments of principal and interest (including, for the avoidance of doubt, all Accrued Interest, Arrears of Interest, Capitalised Interest, Capitalised Expenses and Capitalised Arrears) and other sums due or to become due in respect of such Loans and Related Security including, without limitation, the right to demand, sue for, recover and give receipts for all principal moneys, interest and costs and the right to sue on all covenants and any undertakings made or expressed to be made in favour of the Seller under the applicable Mortgage Conditions;

(b) subject where applicable to the subsisting rights of redemption of Borrowers, all Deeds of Consent, Deeds of Postponement, MHA Documentation or any collateral security for the repayment of the relevant Loans;

(c) the right to exercise all the powers of the Seller in relation thereto;

(d) all the estate and interest in the Properties vested in the Seller;

(e) to the extent they are assignable, each Certificate of Title and Valuation Report (in each case where available) and any right of action of the Seller against any solicitor, licensed conveyancer, qualified conveyancer, valuer or other person in connection with any report, valuation, opinion, certificate or other statement of fact or opinion given in connection with such Loans and Related Security, or any part thereof or affecting the decision of the Seller to make or offer to make any such Loan or part thereof;

(f) all rights, title and interests of the Seller (including, without limitation, the proceeds of all claims) to which the Seller is entitled under the Buildings Insurance Policies and the Properties in Possession Policies; and

(g) the Insurance Policies, so far as they relate to the Loans comprised in that portfolio of Loans and their Related Security, including the right to receive the proceeds of any claim.

**New Portfolio** means in each case the portfolio of New Loans and their Related Security (other than any New Loans and their Related Security which have been redeemed in full prior to the Transfer Date or which do not otherwise comply with the terms of the Mortgage Sale Agreement as at the Transfer Date), particulars of which are set out in the relevant New Portfolio Notice or in a document stored upon electronic media (including, but not limited to, a CD-ROM), and all right, title, interest and benefit of the Seller in and to the rights and assets set out in paragraphs (a) to (g) above.

**Characteristics of the loans**

**Repayment terms**

Loans may combine one or more of the features listed in this section. Other customer incentives may be offered with the product including free valuations and payment of legal fees. Additional features such as the ability to make overpayments or underpayments and, prior to 4 March 2010, payment holidays (temporary suspension of monthly payments) were also available to most borrowers and under certain circumstances. See "*– Overpayments and underpayments*" and "*– Payment holidays*" below.

Loans are typically repayable on one or a combination of both of the following bases:

- **repayment**: the borrower makes monthly payments of both interest and principal so that, when the loan matures, the full amount of the principal of the loan will have been repaid; and

- **interest-only**: the borrower makes monthly payments of interest but not of principal; when the loan matures, the entire principal amount of the loan is still outstanding and is payable typically but not necessarily in one lump sum.

In the case of either repayment loans or interest-only loans, the required monthly payment may alter from month to month for various reasons, including changes in interest rates.

For interest-only loans, because the principal is repaid in a lump sum at the maturity of the loan, the borrower is recommended to have some repayment mechanism (such as an investment plan) which is intended to provide sufficient funds to repay the principal at the end of the term.

Principal prepayments may be made in whole or in part at any time during the term of a loan, subject to the payment of any early repayment charges (as described in "*– Early repayment charges*" below). A prepayment of the entire outstanding balance of a loan discharges the mortgage. Any prepayment in full must be made together with all accrued interest, arrears of interest, any unpaid expenses and applicable repayment fee(s).

Various methods are available to borrowers for making payments on the loans, including:

- direct debit instruction from a bank or building society account,

- standing order from a bank or building society account,

- payments made at Seller's branches; and

- internal transfer if the borrower has a current account with the Seller.

**Interest payments and interest rate setting**

The Seller has responded to the competitive mortgage market by developing a range of products with special features that are used to attract new borrowers and retain existing borrowers. Interest on the loans is charged on one or a combination of the following bases:

- **Standard variable mortgage rate loans** are loans subject to the Seller's Standard Variable Mortgage Rate (the **SVMR**). The Seller has two SVMRs: (i) the Base Mortgage Rate (the **BMR**) which is capped at 2% above the Bank of England base rate; and (ii) the Standard Mortgage Rate (the **SMR**) which was introduced for loans offered with effect from April 2009 and does not have an interest rate cap.

- **Fixed rate loans** means those loans to the extent that and for such time that the interest rate payable by the borrower on all or part of the outstanding principal balance does not vary and is fixed for a certain period of time by the Seller.

- **Tracker rate loans** means those loans to the extent that and for such time that the interest rate payable by the borrower is linked to a variable rate other than the SMR or the BMR (and shall, for the avoidance of doubt, exclude loans during the period that they are fixed rate loans or standard variable rate loans). The interest rate on tracker rate loans is currently set at a margin by reference to rates set by the Bank of England.

The SVMR and some tracker rates may apply for the life of the loan. Otherwise, each of the above rates is offered for a predetermined period, usually between 2 and 5 years, at the commencement of the loan (the **product period**). At the end of the product period the rate of interest charged will either (a) move to some other interest rate type for a predetermined period or (b) revert to, or remain at, the BMR or the SMR. All loans, the offers for which were made since April 2009 and loans the offers for which were made before that date which have since switched product will revert to the SMR. Loans the offers for which were made before April 2009 and have not switched product will revert to the BMR. In certain instances, early repayment charges are payable by the borrower if the loan is redeemed within a specified period. See "*The Loans – Early repayment charges*" below.

Since 1 May 2001 all loans originated by the Seller have had their interest calculated on a daily basis rather than on an annual basis. Any payment of principal by the borrower will immediately reduce the principal balance on which interest will be calculated the following day. Prior to this date, all loans had carried interest calculated on an annual basis.

The following is a summary of the provisions relating to interest rate variations contained in the various Mortgage Conditions:

- **Nationwide** – under the Nationwide mortgage conditions prior to 1999 the Seller may change the interest rate at any time and for any reason. Under the 1999, 2001 and 2008 Nationwide mortgage conditions (the latter of which have superseded all other mortgage conditions in relation to the Seller's mortgage origination business), the Seller can only change the interest rate for a number of specified reasons. These reasons include, by way of example, to reflect (a) a change in the cost of funds used in the Seller's mortgage lending business, (b) a change in the law or regulatory requirements or a decision by a court, (c) a change in the way the property is used or occupied, or (d) a change in the credit risk relating to the loan. The 2008 Nationwide mortgage conditions incorporate additional reasons including to reflect changes in general interest rates, to respond to changes in the rates applying to the Seller's savings business and to maintain the Seller's financial strength for the benefit of its members. It should be noted that the mortgage conditions referred to in this section do not apply in Scotland but that similar conditions apply separately in Scotland.

  If the Seller wishes to increase the interest rate it must first give notice to the borrower of the increase, either by advertisement or personal notice. Under all of the Nationwide mortgage conditions (but not the 1986 Anglia mortgage conditions) the borrower may then repay the loan without paying interest at the increased rate if the borrower gives notice of its intention to repay within one month of the notice of increase and repays the loan (or the part of it which is affected by the increase) together with any early repayment charge and any unpaid interest and expenses within three months of the notice of increase.

- **Portman** – under the 1994 Portman mortgage conditions the Seller may vary the interest rate at any time and for any reason. Any increase in the interest rate is required to be publicised in accordance with the requirements of the Portman Building Society Rules. However, following a transfer of the mortgage, the Rules cease to apply and an increase in the interest rate will not come into effect until

notice of the increase is served on the borrower in writing or given to the borrower by such alternative method as may have been notified to the borrower prior to the transfer.

Under the post-1995 Portman mortgage conditions the Seller can vary the interest rate for a number of specified reasons. These reasons include, for example, to reflect changes in law or in regulatory requirements or where there has been or it is reasonably expected that there will be a change in the cost of the funds the Seller uses in its secured lending business (or alternatively in the case of the 1995 to 1997 Portman mortgage conditions if there has been or it is reasonably expected that there will be a general change in the rates of interest applicable to secured loans or if the Seller intends at the same time or shortly afterwards to increase the rate of interest paid to its investors or depositors to attract or retain funds). The post-1995 Portman mortgage conditions also contain a separate right for the Seller to vary the interest rate for any other valid reason if (a) under the terms and conditions then applicable to the mortgage the borrower can repay the mortgage debt without paying a repayment fee, or (b) the Seller allows the borrower to repay the debt within two months of the variation without charging the borrower any repayment fee or other costs of repayment which would ordinarily be payable. Under the post-1997 Portman mortgage conditions the borrower is required to be given notice of any change in the interest rate.

The current policy of the Seller is to rely upon the reasons specified in the 2008 Nationwide mortgage conditions in order to change the interest rate applicable to all mortgage loans of the Seller, regardless of the date of origination.

If applicable, the Servicer will also be responsible for setting any variable margins in respect of new tracker rate loans that are sold to the LLP in the future. However, in maintaining, determining or setting these variable margins, except in the limited circumstances as set out in the Servicing Agreement, the Servicer has undertaken to maintain, determine or set the variable margins at a level which is not higher than the variable margins set in accordance with the Seller's policy from time to time. The Seller has a variable base rate cap whereby it has capped its BMR at no more than 2% above the Bank of England base rate at any time. The Seller currently cannot increase the cap.

**Early repayment charges**

The borrower may be required to pay an early repayment charge if certain events occur during the predetermined product period and the loan agreement states that the borrower is liable for early repayment charges and the Seller has not waived or revised its policy with regards the payment of early repayment charges. These events include a full or partial unscheduled repayment of principal, or an agreement between the Seller and the borrower to switch to a different mortgage product. If all or part of the principal owed by the borrower, other than the scheduled monthly payments, is repaid before the end of the product period, the borrower will be liable to pay to the Seller a repayment fee based on a percentage of the amount repaid or switched to another product. If the borrower has more than one product attached to the mortgage, the borrower may choose under which product the principal should be allocated.

Borrowers whose mortgage offers were made before 29 May 2013 are currently permitted to make an overpayment of up to £500 each month (or in some cases, up to 10% of the loan within a 12 month period) and Borrowers whose mortgage offers were made on or after 29 May 2013 are permitted to make an overpayment of up to 10% of the loan within a 12 month period, without being required to pay any early repayment charge. This figure may be reviewed from time to time to reflect market conditions. In certain circumstances such as the death of a borrower where a life policy is used to redeem the mortgage and where a critical illness claim redeems or reduces the balance on the mortgage, early repayment charges are usually waived.

If the borrower repays its mortgage during an early redemption charge period to move house, the borrower may not have to pay the charge if the borrower takes out a new loan for the new home and transfers both the balance and the terms of the existing loan to the new home.

Some mortgage products do not include any provisions for the payment of an early repayment charge by the borrower. Early repayment charges will not be included in Revenue Receipts.

**Overpayments and underpayments (or flexible payments or payment holidays)**

Most loans other than CCA regulated loans (including flexible advances) are subject to a range of options, selected by the borrower, that give the borrower greater flexibility in the timing and amount of payments under each loan. Most loans other than CCA regulated ones (including flexible advances) offer one or more of the features described below, subject to certain conditions and financial limits:

Overpayments – borrowers may either increase their regular monthly payments above the normal monthly payment then applicable or make lump sum payments at any time subject to payment of early repayment charges where appropriate.

Underpayments – where borrowers have previously overpaid, they may reduce their monthly payments below the amount of the applicable monthly payment or make an irregular underpayment. Borrowers are not permitted to make underpayments that exceed the total of previous overpayments less the total of previous underpayments.

Payment holidays – borrowers whose loans were reserved prior to 4 March 2010 may apply for a break from making monthly payments, normally up to 12 months subject to, amongst other things, maximum LTV criteria taking into account the revised outstanding principal balance of the loan after such break in instalments, payments under the mortgage being fully up-to-date and the borrower having made at least the last 12 monthly payments prior to the date of application for the payment holiday. An approval of such application and the determination of such period are at the discretion of the Seller. Payment holidays are not permitted in respect of flexible advances.

Cash re-draws or borrow backs – where borrowers have previously overpaid on loans reserved prior to 4 March 2010, they may re-draw or borrow back an amount up to the value of those overpayments.

**Flexible Loans and Flexible Advances**

Flexible loans are a type of loan product that typically incorporates features that give the borrower options (which may be subject to certain conditions) to, among other things, make further drawings on the loan account and/or to overpay or underpay interest and principal in a given month and/or take a payment holiday.

Flexible advances are loans for unrestricted purposes (which may be CCA regulated) offered to borrowers with existing loans (other than a flexible advance) from the Seller which is secured on the same property that secures the borrower's existing loan. Some flexible advances permit the borrower to make further draws up to the fixed credit limit extended under the mortgage conditions at the inception of the flexible advance. Flexible advances ceased to be made available after 1 December 2008.

**Further advances**

If a borrower wishes to take out a further loan secured by the same mortgage, and provided not less than 6 months have passed since the date of completion of the initial loan, the borrower will need to make a further advance application and the Seller will use the Lending Criteria applicable to further advances at that time which include, amongst other things, payments under the mortgage being fully up-to-date and the borrower not having missed any of the last 6 monthly payments prior to the date of application for the further advance. Approval of such application is at the discretion of the Seller. All further advances require the postponement of any second charge or standard security.

Some Loans in the Portfolio may have Further Advances made on them prior to their being sold to the LLP and Loans added to the Portfolio in the future may have had Further Advances made on them prior to that time.

If a Loan is subject to a Further Advance after being sold to the LLP, the Seller will be entitled to repurchase the Loan and its Related Security from the LLP or be deemed to have made a Capital Contribution in Kind in consideration of such Further Advance. See further "*Summary of the Principal Documents – Mortgage Sale Agreement*" and "*Summary of the Principal Documents – LLP Deed*".

**Product switches**

From time to time, borrowers may request or the Servicer may send an offer of a variation in the financial terms and conditions applicable to the borrower's loan. In limited circumstances, if a Loan is subject to a Product Switch as a result of a variation, then the Seller will be required to repurchase the Loan or Loans and their related security from the LLP. Those limited circumstances, are that as at the relevant date, any of the Representations and Warranties in relation to that Loan, as described in "*Summary of the Principal Documents – Mortgage Sale Agreement*", would be breached upon the making of that Product Switch. See further "*Summary of the Principal Documents - Mortgage Sale Agreement*".

**Origination channels**

The Seller currently derives its mortgage-lending business from its branch network throughout the United Kingdom, through intermediaries and from internet and telephone sales.

The policies and procedures relevant to the origination of the mortgage loan advances are substantially similar to those set out below. It should, however, be noted that the policies and procedures have changed over time and not all of the included mortgage loan advances will have been originated under these policies and procedures.

All loans are prime mortgage loans secured over owner occupied residential property which were originated by Nationwide or another member of the Nationwide Group. A small proportion of historic prime lending (which may be for the purchase of part-residential/part commercial property to be occupied by the borrower) is ineligible for sale to the LLP. Specialist mortgages including buy-to-let and self-certification mortgage loans secured against residential properties were originated by two wholly owned subsidiaries of the Seller, UCB Home Loans Corporation Limited (**UCBHL**) and the Mortgage Works (UK) plc (**TMW**) but are now only originated by TMW. The mortgages originated by UCBHL and TMW are ineligible for sale to the LLP.

**Right-to-buy loans**

The Portfolio may include Right to Buy Loans, each being a loan entered into by the relevant borrower as a means to purchase, refinance or improve a residential property from a local authority or other social landlord (each a **landlord**) under the "right to buy schemes" governed by the **right to buy legislation** (being the Housing Act 1985 and the Housing Act 1996 (each as amended and updated from time to time) (in the case of English Mortgages) and the Housing (Scotland) Act 1987 (as amended by the Housing (Scotland) Act 2001 (in the case of Scottish mortgages) or governed by the Housing (Northern Ireland) Order 1983 (as amended) (in the case of Northern Irish mortgages).

Properties sold under the right to buy legislation are sold by the relevant landlord at a discount to market value calculated in accordance with the right to buy legislation. A purchaser must repay a proportion of the discount received or the resale price (the **resale share**) if he or she sells the property within three years (or in the cases where the right to buy was exercised in relation to properties in England and Wales after 18 January 2005, 5 years) (the **RTB disposal period**). Under the right to buy legislation the landlord as Seller

obtains a statutory charge (or, in the case of a property in Scotland, a standard security) over the property in respect of the contingent liability of the purchaser under the scheme to repay the resale share.

In Scotland, under the provisions of the Housing (Scotland) Act 1987 (the **1987 Act**), a standard security granted in respect of the resale share ranks immediately after (1) a standard security granted in security of a loan for the purchase of the property or sums advanced for the purpose of improvements to that property and (2) a standard security over the property granted in security of any other loan where the local authority/social landlord has consented. The 1987 Act does not contain specific provisions obliging the local authority/social landlord to agree to the postponement of the discount security granted in respect of the resale share, but the point is specifically addressed and ranking established by the legislation which as noted specifically ranks any standard security granted in respect of the resale share behind security which is given in respect of a loan for the purchase or improvement of the property. In respect of loans given for any other purpose(s), it is necessary to approach the local authority/social landlord for consent to the security ranking prior to the discount security granted in respect of the resale share, although it should be noted that the 1987 Act does not oblige the local authority/social landlord to grant such consent.

In England the statutory charge ranks senior to other charges including that of any mortgage lender unless (i) the mortgage lender has extended the mortgage loan to the purchaser for the purpose of enabling him to exercise the right to buy or for "approved purposes" under the scheme (including refinancing loans made for the purpose of enabling the exercise of the right to buy and repair works to the property) and is an approved lending institution for the purposes of the Housing Act 1985 and the Housing Act 1996 or (ii) the relevant local authority issues a letter or deed of postponement postponing its statutory charge to that of a mortgage lender. In the case of loans made for approved purposes, the statutory charge is only postponed if the relevant landlord agrees to the postponement but the relevant legislation obliges the landlord to agree to the postponement. However, in practice the lender will need to provide evidence to the relevant landlord as to whether the loan was made for approved purposes.

The Seller is an approved lending institution under the Housing Act 1985 and the Housing Act 1996. The Seller as a matter of policy does not lend during the RTB disposal period above the amount required to purchase such properties (plus legal costs up to £500) unless wholly for an approved purpose under the applicable right to buy legislation. The Seller insists that the relevant landlord's approval for loans for "approved purposes" is in place before making the loan since, until that approval is given, the relevant advance ranks behind the statutory charge. In the case of remortgages, borrowers may in the future be offered the option of paying for insurance cover to benefit the Seller in relation to the risk that a remortgage loan does not have full priority to the statutory charge rather than paying the administrative costs of obtaining the relevant landlord's approval for the postponement of the statutory charge to the remortgage.

Amendments to the Housing Act 1985 introduced by the Housing Act 2004 give the relevant landlord a right of first refusal should the relevant property be disposed of within the first ten years following the exercise of the right to buy (when the right to buy is exercised after 18 January 2005). The consideration payable by the relevant landlord is the value of the property determined, in the absence of agreement between the landlord and the owner, by the district valuer. This right of first refusal may add to the time it takes to dispose of a property where the Seller enforces its security, and the district valuer may determine that the value of the property is lower than that the Seller believes is available in the market.

In Northern Ireland, a similar scheme operates through the Northern Ireland Housing Executive (the **NIHE**), although certain differences apply regarding repayment of discount. The discount covenant charge which is created under the standard terms of the NIHE scheme takes priority immediately after any mortgage securing any amount left outstanding by the purchaser and advanced to him by a lending institution for the purpose of buying his house (and for some other purposes).

In relation to any subsequent charge granted to any lending institution other than the institution which provided the initial loan to buy a house, the NIHE has discretion to postpone its charge to this subsequent charge. Such a subsequent charge would include a charge in favour of a new or subsequent lender if the

purchaser were to transfer his initial mortgage to a new or subsequent lender within a period of three years after the purchase of the house or in those cases where the right to buy was exercised after 18 May 2004, 5 years (being the period during which the NIHE may recoup discount pursuant to the discount covenant charge). The discretion is rarely exercised by the NIHE. Considerations in respect of application of the money for approved purposes do not apply in Northern Ireland.

**Underwriting**

The Seller's underwriting approach is continually developed and enhanced. The Seller currently adopts a system based approach to lending assessment. This assessment is made with reference to three independent components:

(a) Credit score: calculation of propensity to default based on a combination of customer supplied, internal performance and credit bureau data;

(b) Affordability: calculation of an individualised lending amount that reflects the applicant's income net of tax, credit commitments and assumed living expenses, which vary according to income, number of applicants and dependants; and

(c) Policy rules: a range of automated and manually applied rules to decline applications outside Lending Criteria or to set limits on loans which fall within lending criteria.

The underwriting approach returns a decision categorised into "accept", "refer" and "decline". For each decision type, the system also specifies the level of status required. Prior to December 2011, certain low risk applications were eligible to have income verification and payment history requirements waived.

Mortgage applications are either approved by an approvals officer, or under a task-based approvals process. Mandates for approvals officers are split between those that operate from regional service centres where the approver can mandate all loans that meet "accept" and certain "refer" credit score criteria, and the central risk management underwriting unit. For these applications, the approvals officer satisfies themselves as to the plausibility of any material information for which no independent proof was required under policy rules. The task-based approval process combines comprehensive case level management information and exception reporting to enable optimal tracking and control. Under the task-based approvals process some aspects will require independent proof of certain information to be provided. Approved employees are allocated roles appropriate to their competence to complete the relevant tasks. Once all tasks have been satisfactorily completed a mortgage offer may be generated by the task-based system.

In all cases, the central risk management underwriting unit reviews and where appropriate approves credit score overrides classified as a Head Office "refer" and can also override declines if they are appealed. A senior risk management committee assesses the credit score levels for "accept", "refer" and "decline" and may adjust the "accept" and "refer" decisions to a "decline" to reflect changing market conditions.

Mortgage underwriting decisions and lending mandates are subject to internal monitoring by the Seller to ensure the Seller's procedures and policies regarding underwriting are being followed by staff.

**Lending Criteria**

Each loan was originated in accordance with the Seller's (or other member of the Nationwide Group's, as applicable) Lending Criteria which were applicable at the time the loan was offered. The Lending Criteria in the case of each loan originated by the Seller (or other member of the Nationwide Group) and included in the Portfolio as at the date of this Base Prospectus (or, in the case of Loans originated by a member of the Nationwide Group other than Nationwide itself, anticipated to be included in the Portfolio in the future) are the same as, or substantially similar to the criteria described in this section. New Loans may only be included in the Portfolio if they are originated in accordance with the Lending Criteria and are compliant

with the Eligibility Criteria as set out in the Mortgage Sale Agreement and summaries above under "*Summary of the Principal Documents – Mortgage Sale Agreement*". However, the Seller retains the right to revise its Lending Criteria from time to time, therefore, the criteria applicable to new loans may not be exactly the same as those currently included.

To obtain a loan, each prospective borrower completes an application form (or submits an application on-line) which includes information about the applicant's income, current employment details, bank account information, current mortgage information, if any, and certain other personal information. The Seller completes a credit reference agency search in all cases against each applicant at their current address and, if necessary, former addresses, which gives details of public information including any county court judgements (or the Scottish or Northern Irish equivalent) and bankruptcy details. Some of the factors currently used in making a lending decision are as follows:

**Employment Details**

The Seller generally operates the following policy in respect of the verification of a prospective borrower's income details. Under this policy, the Seller categorises prospective borrowers as either "employed" or "self-employed". Proof of income for employed prospective borrowers applying for loans may typically be established by the borrower's most recent monthly payslip and P60. If at the end of the financial year the P60 is not available, the year to date gross income figure from the March payslip may be utilised.

Proof of income for self-employed prospective borrowers may typically be established by:

- A signed accountant's certificate where the applicant has at least 2 full years' accounts. For loans over £500,000, final accounts are required in addition to the accountant's certificate. The latest financial period must not be more than 18 months ago, at the time the case is approved.

- Two years final accounts are acceptable in the case of sole traders instead of an accountant's certificate.

- Inland revenue tax calculations for the last two years, the most recent of which must cover a tax year ended no more than 18 months ago, at the time the case is approved.

Prior to December 2011, the Seller operated a process for certain high quality applicants identified by the lending assessment described under – "*Underwriting"* above whereby income was accepted as stated by the prospective borrower without further proof, once positive identification of the borrower was provided and the borrower had passed the Seller's credit scoring and other eligibility criteria. The Seller reserved the right to require proof of income where deemed appropriate.

**1. Valuation**

The Seller requires that a valuation of the property be obtained either from a valuer employed by the Seller, an independent firm of professional valuers or an automatic valuation model (**AVM)** supplied by an approved AVM provider. The valuer will provide a mortgage valuation report based on a full inspection or an external inspection report which does not involve entering the property. Any valuation of the property is checked against a series of policy rules which will indicate whether the valuation is acceptable, or whether a referral is required.

An AVM is used subject to business rules related to the property type, the LTV ratio, maximum and minimum property values and the AVM achieving an acceptable confidence level. Where a prospective borrower's loan application fails to meet the business rules for AVMs, the property will be valued by an independent valuer.

In addition to the valuation of new house purchase, properties for re-mortgage and further advance loan applications by a valuer employed by the Seller, an independent valuer or AVMs, in some cases, valuations for further advances are conducted using an indexed valuation of the original valuation based upon the Nationwide House Price Index, or in some case, the Halifax House Price Index (each, an **HPI)**, subject to maximum advance and property type business rules and a maximum LTV limit.

Loans valued using borrowers' estimate of value (which were only available prior to June 2008) and HPI are referred to as **loans without independent valuation**.

All aspects of valuation policy and the business rules applied are reviewed periodically.

**2. Property types**

The Seller applies business rules related to property type, location, purpose/use of property and tenure to determine the eligibility of properties to serve as security for loans. The Eligibility Criteria for Loans to be included in the Portfolio is restricted to properties used as residential property for owner occupiers located throughout the United Kingdom, except the Isle of Man, the Isles of Scilly and more remote Scottish Islands.

The following tenures are eligible: freehold (in Scotland, heritable) and leasehold houses, leasehold flats, commonhold and Scottish Ownership. In the case of a loan secured by a leasehold property, the Seller requires that the unexpired term of the lease be at least 30 years (in England) or 50 years (in Scotland and Northern Ireland) from the end of the agreed loan term. Since December 2007 these requirements have included an absolute minimum unexpired lease term of 55 years at the inception of the loan.

**3. Loan amount**

The Seller's product maximum loan amount is £5,000,000 and a scale of mortgage mandate approval levels is applied. However loans exceeding £1,000,000 are subject to the approval of the risk manager of the central risk management underwriting unit of the Seller. The Seller has represented and warranted in the Mortgage Sale Agreement that all Loans have a True Balance of less than £1,000,000. Where the True Balance of a Loan in the Portfolio exceeds £1,000,000 the Loan will be repurchased by the Seller.

**4. Term**

The maximum initial mortgage term is 40 years.

**5. Age of applicant**

All borrowers in respect of all loans must be aged 18 or over. Since July 2008, all new loans have been restricted to terms that do not extend beyond the eldest applicant's 75th birthday, with some exceptions for existing borrowers already outside this limit.

**6. Status of applicant(s)**

The maximum loan amount of the loan(s) under the mortgage account is determined by a number of factors, including the applicant's income. In determining income, the Seller includes basic salary along with performance or profit-related pay allowances, mortgage subsidies, pensions, annuities, overtime, bonus, commission, rental income and selected investment income.

Prior to December 2011, the criterion for limited income-verification for certain high quality applicants as identified by the lending assessment described under " – *Underwriting*" above was determined by a risk based approach adopted to set the most appropriate levels for limited income verification, together with other policy rules. The criterion for limited income verification was weighted towards lower loan-to-value loans. A senior risk management committee reviewed performance of such loans and determined adjustments to the criterion from time to time to reflect market conditions. The performance of full and limited income verification is monitored by category of origination with limited income verification loans to date performing better than full income verification.

The affordability calculation, used in all cases, takes the applicants' gross incomes, including prescribed elements of additional and secondary incomes, credit commitments with more than six months remaining, other non-standard outgoings and an allowance for household costs to derive an affordable loan amount.

Where there are two applicants, the Seller adds joint incomes together for the purpose of calculating the applicants' total income.

The Seller, through its central underwriting unit, may exercise discretion within its Lending Criteria in applying those factors that are used to determine the maximum amount an applicant can borrow. Accordingly, these parameters may vary for some mortgage loans. The Seller may take the following into account when applying discretion: credit score result, existing customer relationship, LTV, known changes in circumstances and total income needed to support the loan.

**7. Credit history**

(a) Credit Search

A credit search is carried out on the first two applicants. Applications may be declined where an adverse credit history (for example, county court judgment (or the Scottish or Northern Irish equivalent), default or bankruptcy notice) is revealed.

(b) Payment History

Subject to the credit score result in some cases the Seller may seek to see the borrower’s bank statements and a reference from any existing and/or previous lender. Any reference must satisfy the Seller that the account has been properly conducted and that no history of material arrears exists. The Seller may substitute the reference with the bureau record obtained as a result of the credit search.

**8. Scorecard**

The Seller uses some of the criteria described here and various other criteria to produce an overall score for the application that reflects a quantitative measure of the risk of advancing the loan. The scorecard has been developed using the Seller's own data and experience of its own mortgage accounts. The lending policies and processes are determined centrally to ensure consistency in the management and monitoring of credit risk exposure. Credit scoring applies statistical analysis to publicly available data, closed user group data obtained from credit reference agencies, the Seller's own cross holding data and customer-provided data to assess the likelihood of a mortgage account going into arrears.

The Seller reserves the right to decline an application that has achieved a passing score. It is the Seller's policy to allow only authorised individuals to exercise discretion in granting variances from

the scorecard. The Seller does have an appeals process if an applicant believes that his/her application has been unfairly declined.

On a case-by-case basis, and within approved limits as detailed in the Seller's Lending Criteria, the Seller acting as a Reasonable, Prudent Mortgage Lender may have determined that, based upon compensating factors, a prospective borrower that did not strictly qualify under its Lending Criteria at that time warranted an underwriting exception. The Seller may take into account compensating factors including, but not limited to, a low LTV ratio, stable employment and time in residence at the applicant's current residence. New Loans and Further Advances (made prior to their assignment to the LLP or, if the Seller decides at a later date to retain such Loans subject to such Further Advances within the Portfolio, after their assignment to the LLP) that the Seller has originated under Lending Criteria that are different from the Lending Criteria set out here may be assigned to the LLP.

**Changes to the underwriting policies and the Lending Criteria**

The Seller's underwriting policies and Lending Criteria are subject to change within the Seller's sole discretion. Loans and Further Advances that are originated under Lending Criteria that are different from the Lending Criteria set out here may be sold to the LLP.

**Selected statistical information on the on the Portfolio for each Series**

In respect of each Series of Covered Bonds, statistical information regarding the Loans as of the relevant measurement/testing date in the Portfolio will be set out in the applicable Final Terms. Please note, however, that the information provided is historical and, given that New Loans may be added to the Portfolio at any time, accordingly the statistical information provided at the time of issue may be different to the actual composition of the Portfolio at any given time.

**Regulation of the UK Residential Mortgage Market**

The Seller is subject to the FSMA 2000, MCOB (and other FCA rules) and the Ombudsman, (which is a statutory scheme under the FSMA 2000) and certain other regulatory regimes as described in "*Regulatory changes by the FCA, the OFT and other regulatory authorities*" above.

See also the following risk factors under "*Risk Factors – Risk Factors relating to the LLP – Limited description of the Portfolio – Maintenance of Portfolio*" and "*– Changes to the Lending Criteria of the Seller*".

## DESCRIPTION OF THE UK REGULATED COVERED BOND REGIME

*This section is only a summary of the UK Covered Bond Regime. Prospective purchasers of Covered Bonds should consider carefully all the information contained in this document, including the information set out below, before making any investment decision.*

The Regulated Covered Bonds Regulations 2008 (SI 2008/346) (the **Original RCB Regulations**) and the corresponding implementation provisions, set out in the Regulated Covered Bonds Sourcebook published under the FSMA 2000 (the **RCB Sourcebook**), came into force in the United Kingdom on 6 March 2008 and were amended by The Regulated Covered Bonds Regulations (Amendment) Regulations 2008 (SI 2008/1714) (the **Amendment RCB Regulations** and, together with the Original RCB Regulations, the **RCB Regulations**). In summary, the RCB Regulations implement a legislative framework for UK covered bonds. The framework is intended to meet the requirements set out in Article 52(4) of Directive (2009/65/EC) on undertakings for collective investment in transferable securities (the **UCITS Directive**). In general, covered bonds which are UCITS Directive-compliant benefit from higher prudential investment limits and may be ascribed a preferential risk weighting. Notwithstanding the intention behind the new framework, the FCA will not notify the European Commission of an issuer's inclusion in the register of issuers, a covered bond included in the register of regulated covered bonds or the status of the guarantee offered in respect of such covered bonds until the registration process in respect of that issuer and its covered bond programme has been successfully completed.

*Supervision and registration*

The FCA performs certain supervision and enforcement related tasks in respect of the new regime, including admitting issuers and covered bonds to the relevant registers and monitoring compliance with ongoing requirements. To assist it with these tasks, the FCA has certain powers under the RCB Regulations. In particular, in certain circumstances the FCA may direct the winding-up of an owner, remove an issuer from the register of issuers and/or impose a financial penalty of such amount as it considers appropriate in respect of an issuer or owner and direct an issuer to publish information given to the FCA under the RCB Regulations. Moreover, as a body which regulates the financial services industry in the United Kingdom, the FCA may take certain actions in respect of issuers using its general powers under the UK regulatory regime (including restricting an issuer's ability to transfer further assets to the asset pool).

The Issuer was admitted to the register of issuers and the Programme was admitted to the register of regulated covered bonds under the RCB Regulations on 11 November 2008.

*Requirements under the legislative framework*

The RCB Regulations and the RCB Sourcebook include various requirements related to registered issuers, asset pool owners, pool assets and the contractual arrangements made in respect of such assets. In this regard, issuers and owners have various initial and ongoing obligations under the RCB Regulations and the RCB Sourcebook and are responsible for ensuring they comply with them. In particular, issuers are required to (amongst other things) enter into arrangements with the owner for the maintenance and administration of the asset pool such that certain asset record-keeping obligations and asset capability and quality related requirements are met and notify the FCA of various matters (including any regulated covered bonds it issues, the assets in the asset pool, matters related to its compliance with certain regulations and any proposed material changes). Owners are required to (amongst other things) notify the FCA of various matters (including any proposed transfer of ownership of the asset pool) and, on insolvency of the issuer, make arrangements for the maintenance and administration of the asset pool (similar to the issuer obligations described above). While the framework has been shaped to generally accommodate existing UK covered bond structures (such as that contemplated in respect of Covered Bonds previously issued under the Programme), certain changes are required to such structures to meet the requirements of the RCB Regulations.

The UK authorities undertook reviews of the UK legislative framework in 2011 and 2012 and certain changes were made to the regime with the intention of enhancing the attractiveness of UK regulated covered bonds to investors. These changes took effect from 1 January 2013 and include the following:

- *Single asset pool designation* – issuers are required to designate their programme as being a single asset pool (consisting of either class one assets – public sector debt, class two assets – residential mortgage loans or class three assets – commercial loans and, in each case, liquid assets) or a mixed asset pool (consisting of all eligible property for the purposes of the RCB Regulations). The Issuer has provided the necessary certifications for the Programme to be registered as a single asset pool programme, falling in class two. As a result, the Asset Pool will consist solely of residential mortgage loans and certain liquid assets, being UK government securities and cash deposits, all of which complies with paragraph 68(a) or (b) of Annex VI to the Banking Consolidation Directive (2006/48/EC). To be clear, and in keeping with the new requirements under the RCB Regulations, the Asset Pool will not include any asset-backed securities.

- *Fixed minimum over-collateralisation requirement for principal and fixed minimum coverage requirement for interest* – under the new requirements, the total principal amount outstanding on the loans constituting eligible property in the asset pool will be required to be more than the total principal amounts outstanding in relation to the regulated covered bonds by at least 8% and a minimum threshold will apply in respect of interest amounts such that the total amount of interest payable in the period of twelve (12) months following any given date in respect of the eligible property in the asset pool will be required to be not less than the interest which would be payable in relation to the regulated covered bonds in that period. For the purposes of calculating each of these tests, the issuer can take into account certain liquid assets up to a maximum of 8% of those covered bonds that have a maturity date of one year or more and 100% of those covered bonds that have a maturity date of less than one year.

- *Investor reporting, including loan-level data* – new investor reporting requirements will apply. In particular, issuers will be required to make available detailed loan-level information relating to the asset pool following an issuance of regulated covered bonds after 1 January 2013. Issuers will also be required to publish certain transactions documents relating to the programme. When available, the information to be published by the Issuer can be found at http://www.nationwide.co.uk/investorrelations/default.htm. The information set out in the website and the contents thereof do not form part of this Prospectus.

- *Asset pool monitor role* – new requirements have been introduced to formalise the role of the asset pool monitor. Under the new provisions, an asset pool monitor will be required, on an annual basis, to inspect and assess the issuer's compliance with certain principles based requirements under the regime and to report on their findings to the FCA (with additional reporting requirements in the case of issuer noncompliance). Each issuer is required to appoint an asset pool monitor in advance of their annual attestation falling on or after 1 January 2013.

Under the RCB Regulations, an issuer may be removed from the register of issuers in certain limited circumstances but the FCA is restricted from removing a regulated covered bond from the register of regulated covered bonds before the expiry of the whole period of validity of the relevant bond.

See also "*Risk Factors – UK regulated covered bond regime*" and "*Risk Factors– Expenses of insolvency officeholders*".

## DESCRIPTION OF LIMITED LIABILITY PARTNERSHIPS

Since 6 April 2001 it has been possible to incorporate a limited liability partnership in England, Wales and Scotland (but not Northern Ireland) under the Limited Liability Partnership Act 2000 (the **LLPA 2000**). Limited liability partnerships are legal entities that provide limited liability to the members of a limited liability partnership combined with the benefits of the flexibility afforded to partnerships and the legal personality afforded to companies.

### Corporate characteristics

A limited liability partnership is more like a company than a partnership. A limited liability partnership is a body corporate with its own property and liabilities, separate from its members. Like shareholders in a limited company, the liability of the members of a limited liability partnership is limited to the amount of their capital because it is a separate legal entity and when the members decide to enter into a contract, they bind the limited liability partnership in the same way that directors bind a company. Members may be liable for their own negligence and other torts or delicts, like company directors, if they have assumed a personal duty of care and have acted in breach of that duty. Third parties can assume that members, like company directors, are authorised to act on behalf of the limited liability partnership.

The provisions of the Companies Act 2006 and the Insolvency Act 1986 have been modified by the Limited Liability Partnerships Regulations 2001 (as amended by the Limited Liability Partnerships from time to time) so as to apply most of the insolvency and winding-up procedures for companies equally to a limited liability partnership and its members. As a distinct legal entity a limited liability partnership can grant fixed and floating security over its assets and a limited liability partnership will survive the insolvency of any of its members. An administrator or liquidator of an insolvent member would be subject to the terms of the members' agreement relating to the limited liability partnership but a liquidator of an insolvent member may not take part in the administration of the limited liability partnership or its business.

Limited liability partnerships must file annual returns and audited annual accounts at Companies House for each financial year in the same way as companies.

### Partnership characteristics

A limited liability partnership retains certain characteristics of a partnership. It has no share capital and there are no capital maintenance requirements. The members are free to agree how to share profits, who is responsible for management and how decisions are made, when and how new members are appointed and the circumstances in which its members retire. The members' agreement is a private document and there is no obligation to file it at Companies House.

### Taxation

A limited liability partnership which carries on a trade or business with a view to profit (and which is not the subject of certain insolvency proceedings) is, generally speaking, treated as a partnership for corporation tax purposes. As such, the corporate members of a limited liability partnership, and not the limited liability partnership itself, are subject to corporation tax in relation to the business of the limited liability partnership in broadly the same way that the members of a partnership are subject to corporation tax in relation to the business of that partnership.

## BOOK-ENTRY CLEARANCE SYSTEMS

*The information set out below is subject to any change in or reinterpretation of the rules, regulations and procedures of the Clearing Systems currently in effect. The information in this section concerning the Clearing Systems has been obtained from sources that the Issuer and the LLP believe to be reliable, but none of the Issuer, the LLP, the Bond Trustee or any Dealer takes any responsibility for the accuracy thereof. Investors wishing to use the facilities of any of the Clearing Systems are advised to confirm the continued applicability of the rules, regulations and procedures of the relevant Clearing System. None of the Issuer, the LLP nor any other party to the Agency Agreement will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial ownership interests in the Covered Bonds held through the facilities of any Clearing System or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.*

### Book-entry Systems

*DTC*

DTC has advised the Issuer that it is a limited purpose trust company organised under the New York Banking Law, a "banking organisation" 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 Section 17A of the Exchange Act. DTC holds and provides asset servicing for securities that its participants (**Direct Participants**) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities through electronic computerised book-entry transfers and pledges between Direct Participants' accounts, thereby eliminating the need for physical movement of securities certificates. Direct Participants include both US and non-US securities brokers and dealers, banks, trust companies, clearing corporations and certain other organisations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (**DTCC**). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation (NSCC, GSCC, MBSCC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC and the National Association of Securities Dealers, Inc. Access to the DTC System is also available to others such as securities brokers and dealers, banks, trust companies and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (**Indirect Participants**). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of DTC Covered Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the DTC Covered Bonds on DTC's records. The ownership interest of each actual purchaser of each Covered Bond (**Beneficial Owner**) is in turn to be recorded on the Direct and Indirect Participant's records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the DTC Covered Bonds are to be accomplished by entries made on the books of Direct Participants or Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in DTC Covered Bonds, except in the event that use of the book-entry system for the DTC Covered Bonds is discontinued.

To facilitate subsequent transfers, all DTC Covered Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. or such other nominee as may be requested by an authorised representative of DTC. The deposit of DTC Covered Bonds with DTC and their

registration in the name of Cede & Co. or such other nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the DTC Covered Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such DTC Covered Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to DTC. If less than all of the DTC Covered Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to DTC Covered Bonds unless authorised by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the DTC Covered Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the DTC Covered Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorised representative of DTC. DTC's practice is to credit Direct Participants' accounts, upon DTC's receipt of funds and corresponding detail information from the Issuer or the Principal Paying Agent, on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name", and will be the responsibility of such Direct Participants or Indirect Participants, as applicable, and not of DTC or its nominee, the Principal Paying Agent or the Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorised representative of DTC) is the responsibility of Issuer or Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct Participants and Indirect Participants.

Under certain circumstances, DTC will exchange the DTC Covered Bonds for Registered Definitive Covered Bonds, which it will distribute to its Direct Participants or Indirect Participants in accordance with their proportionate entitlements and which, if representing interests in a Rule 144A Global Covered Bond, will be legended as set forth under "*Subscription and Sale and Transfer and Selling Restrictions*".

Since DTC may only act on behalf of Direct Participants, who in turn act on behalf of Indirect Participants, any Beneficial Owner desiring to pledge DTC Covered Bonds to persons or entities that do not participate in DTC, or otherwise take actions with respect to such DTC Covered Bonds, will be required to withdraw its Registered Covered Bonds from DTC as described below.

**Euroclear and Clearstream, Luxembourg**

Euroclear and Clearstream, Luxembourg each holds securities for its customers and facilitates the clearance and settlement of securities transactions by electronic book-entry transfer between their respective account holders. Euroclear and Clearstream, Luxembourg provide various services including safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Euroclear and Clearstream, Luxembourg also deal with domestic securities markets in several countries through established depository and custodial relationships. Euroclear and Clearstream,

Luxembourg have established an electronic bridge between their two systems across which their respective participants may settle trades with each other.

Euroclear and Clearstream, Luxembourg customers are world-wide financial institutions, including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations. Indirect access to Euroclear and Clearstream, Luxembourg is available to other institutions that clear through or maintain a custodial relationship with an account holder of either system.

**Book-entry Ownership of and Payments in respect of DTC Covered Bonds**

The Issuer may apply to DTC in order to have any Tranche of Covered Bonds represented by a Registered Global Covered Bond accepted in its book-entry settlement system. Upon the issue of any such Registered Global Covered Bond, DTC or its custodian will credit, on its internal book-entry system, the respective nominal amounts of the individual beneficial interests represented by such Registered Global Covered Bond to the accounts of persons who have accounts with DTC. Such accounts initially will be designated by or on behalf of the relevant Dealer. Ownership of beneficial interests in such a Registered Global Covered Bond will be limited to Direct Participants or Indirect Participants, including, in the case of any Regulation S Global Covered Bond, the respective depositaries of Euroclear and Clearstream, Luxembourg. Ownership of beneficial interests in a Registered Global Covered Bond accepted by DTC will be shown on, and the transfer of such ownership will be effected only through, records maintained by DTC or its nominee (with respect to the interests of Direct Participants) and the records of Direct Participants (with respect to interests of Indirect Participants).

Payments in US dollars of principal and interest in respect of a Registered Global Covered Bond accepted by DTC will be made to the order of DTC or its nominee as the registered holder of such Covered Bond. In the case of any payment in a currency other than US dollars, payment will be made to the Exchange Agent on behalf of DTC or its nominee and the Exchange Agent will (in accordance with instructions received by it) remit all or a portion of such payment for credit directly to the beneficial holders of interests in the Registered Global Covered Bond in the currency in which such payment was made and/or cause all or a portion of such payment to be converted into US dollars and credited to the applicable Participants' account.

The Issuer expects DTC to credit accounts of Direct Participants on the applicable payment date in accordance with their respective holdings as shown in the records of DTC unless DTC has reason to believe that it will not receive payment on such payment date. The Issuer also expects that payments by Participants to beneficial owners of Covered Bonds will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers, and will be the responsibility of such Participant and not the responsibility of DTC, the Bond Trustee, the Security Trustee, the Principal Paying Agent, the Registrar or the Issuer. Payment of principal, premium, if any, and interest, if any, on Covered Bonds to DTC is the responsibility of the Issuer.

**Transfers of Covered Bonds Represented by Registered Global Covered Bonds**

Transfers of any interests in Covered Bonds represented by a Registered Global Covered Bond within DTC, Euroclear and Clearstream, Luxembourg will be effected in accordance with the customary rules and operating procedures of the relevant clearing system. The laws in some States within the United States require that certain persons take physical delivery of securities in definitive form. Consequently, the ability to transfer Covered Bonds represented by a Registered Global Covered Bond to such persons may depend upon the ability to exchange such Covered Bonds for Covered Bonds in definitive form. Similarly, because DTC can only act on behalf of Direct Participants in the DTC system who in turn act on behalf of Indirect Participants, the ability of a person having an interest in Covered Bonds represented by a Registered Global Covered Bond accepted by DTC to pledge such Covered Bonds to persons or entities that do not participate in the DTC system or otherwise to take action in respect of such Covered Bonds may depend upon the ability to exchange such Covered Bonds for Covered Bonds in definitive form. The ability of any holder of Covered Bonds represented by a Registered Global Covered Bond accepted by DTC to resell, pledge or

otherwise transfer such Covered Bonds may be impaired if the proposed transferee of such Covered Bonds is not eligible to hold such Covered Bonds through a Direct Participant or Indirect Participant in the DTC system.

Subject to compliance with the transfer restrictions applicable to the Registered Covered Bonds described under "*Subscription and Sale and Transfer and Selling Restrictions*", cross-market transfers between DTC, on the one hand, and directly or indirectly through Clearstream, Luxembourg or Euroclear accountholders, on the other, will be effected by the relevant clearing system in accordance with its rules and through action taken by the Registrar, the Principal Paying Agent and any custodian (**Custodian**) with whom the relevant Registered Global Covered Bonds have been deposited.

On or after the Issue Date for any Series, transfers of Covered Bonds of such Series between accountholders in Clearstream, Luxembourg and Euroclear and transfers of Covered Bonds of such Series between participants in DTC will generally have a settlement date three business days after the trade date (T+3). The customary arrangements for delivery versus payment will apply to such transfers.

Cross-market transfers between accountholders in Clearstream, Luxembourg or Euroclear and DTC participants will need to have an agreed settlement date between the parties to such transfer. Because there is no direct link between DTC, on the one hand, and Clearstream, Luxembourg and Euroclear, on the other, transfers of interests in the relevant Registered Global Covered Bonds will be effected through the Registrar, the Principal Paying Agent and the Custodian receiving instructions (and, where appropriate, certification) from the transferor and arranging for delivery of the interests being transferred to the credit of the designated account for the transferee. In the case of cross-market transfers, settlement between Euroclear or Clearstream, Luxembourg accountholders and DTC participants cannot be made on a delivery versus payment basis. The securities will be delivered on a free delivery basis and arrangements for payment must be made separately.

DTC, Clearstream, Luxembourg and Euroclear have each published rules and operating procedures designed to facilitate transfers of beneficial interests in Registered Global Covered Bonds among participants and accountholders of DTC, Clearstream, Luxembourg and Euroclear. However, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued or changed at any time. None of the Bond Trustee, the Security Trustee, the Issuer, the LLP, the Agents or any Dealer will be responsible for any performance by DTC, Clearstream, Luxembourg or Euroclear or their respective direct or indirect participants or accountholders of their respective obligations under the rules and procedures governing their operations and none of them will have any liability for any aspect of the records relating to or payments made on account of beneficial interests in the Covered Bonds represented by Registered Global Covered Bonds or for maintaining, supervising or reviewing any records relating to such beneficial interests.

## UNITED KINGDOM TAXATION

*The following is a summary of the Issuer's understanding of current United Kingdom law and published HM Revenue & Customs' (**HMRC's**) practice relating only to the United Kingdom withholding tax treatment of payments of interest (as that term is understood for United Kingdom taxation purposes) in respect of the Covered Bonds. It does not deal with any other United Kingdom taxation implications of acquiring, holding or disposing of Covered Bonds. The United Kingdom tax treatment of prospective holders of Covered Bonds depends on their individual circumstances and may be subject to change in the future. Any holders of Covered Bonds who are in doubt as to their tax position should consult their professional advisers.*

*Prospective holders of the Covered Bonds should note that the particular terms of issue of any Series of Covered Bonds as specified in the applicable Final Terms may affect the tax treatment of that and any other Series of Covered Bonds and should be treated with appropriate caution. The comments below do not deal with the tax consequences of any substitution of the Issuer in accordance with Condition 14 of the Covered Bonds.*

*Holders of Covered Bonds who may be liable to taxation in jurisdictions other than the United Kingdom in respect of their acquisition, holding or disposal of Covered Bonds are particularly advised to consult their professional advisers as to whether they are so liable (and, if so, under the laws of which jurisdictions), since the following comments relate only to certain United Kingdom taxation aspects of payments in respect of the Covered Bonds. In particular, holders of Covered Bonds should be aware that they may be liable to taxation under the laws of other jurisdictions in relation to payments in respect of the Covered Bonds even if such payments may be made without withholding or deduction for or on account of taxation under the laws of the United Kingdom.*

### Payment of Interest by the Issuer on the Covered Bonds

Payments of interest on the Covered Bonds may be made without withholding or deduction for or on account of United Kingdom income tax provided that the Covered Bonds carry a right to interest and the Covered Bonds are and continue to be listed on a "recognised stock exchange" within the meaning of section 1005 of the Income Tax Act 2007 (the **ITA**). The London Stock Exchange is a recognised stock exchange. Securities will be treated as listed on the London Stock Exchange if they are included in the Official List (within the meaning of and in accordance with the provisions of Part 6 of the FSMA 2000) and admitted to trading on the London Stock Exchange. Provided, therefore, that the Covered Bonds carry a right to interest and are and remain so listed on a "recognised stock exchange", interest on the Covered Bonds will be payable without withholding or deduction for or on account of United Kingdom tax.

Payments of interest on the Covered Bonds may be made without deduction of or withholding on account of United Kingdom tax where the maturity of the Covered Bonds is less than 365 days and those Covered Bonds do not form part of a scheme or arrangement of borrowing intended to be capable of remaining outstanding for more than 364 days.

In other cases, an amount must generally be withheld from payments of interest on the Covered Bonds that has a United Kingdom source on account of United Kingdom income tax at the basic rate (currently 20%), subject to any other available exemptions and reliefs. However, where an applicable double tax treaty provides for a lower rate of withholding tax (or for no tax to be withheld) in relation to a holder of a Covered Bond, HMRC can issue a notice to the Issuer to pay interest to such holder without deduction of tax (or for interest to be paid with tax deducted at the rate provided for in the relevant double tax treaty).

### Payments by the LLP

If the LLP makes any payment in respect of interest on the Covered Bonds (or any other amounts due under the Covered Bonds other than the repayment of amounts subscribed for under the Covered Bonds) such

payment may be subject to United Kingdom withholding tax, whether or not the Covered Bonds are listed on a "recognised stock exchange" within the meaning of section 1005 of the ITA. If payments by the LLP are subject to any withholding or deduction for or on account of tax, the LLP will not be required to pay any additional amounts.

## FOREIGN ACCOUNT TAX COMPLIANCE ACT

Pursuant to certain provisions of the U.S. Internal Revenue Code of 1986, commonly known as FATCA, a "foreign financial institution" may be required to withhold on certain payments it makes (**foreign passthru payments**) to persons that fail to meet certain certification, reporting, or related requirements. The Issuer is a foreign financial institution for these purposes. A number of jurisdictions (including the United Kingdom) have entered into, or have agreed in substance to, intergovernmental agreements with the United States to implement FATCA (**IGAs**), which modify the way in which FATCA applies in their jurisdictions. Under the provisions of IGAs as currently in effect, a foreign financial institution in an IGA jurisdiction would generally not be required to withhold under FATCA or an IGA from payments that it makes. Certain aspects of the application of the FATCA provisions and IGAs to instruments such as the Covered Bonds, including whether withholding would ever be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Covered Bonds, are uncertain and may be subject to change. Even if withholding would be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Covered Bonds, such withholding would not apply prior to 1 January 2019 and Covered Bonds issued on or prior to the date that is six months after the date on which final regulations defining "foreign passthru payments" are filed with the U.S. Federal Register generally would be "grandfathered" for purposes of FATCA withholding unless materially modified after such date (including by reason of a substitution of the Issuer). However, if additional Covered Bonds (as described under "Terms and Conditions—Further Issues") that are not distinguishable from previously issued Covered Bonds are issued after the expiration of the grandfathering period and are subject to withholding under FATCA, then withholding agents may treat all Covered Bonds, including the Covered Bonds offered prior to the expiration of the grandfathering period, as subject to withholding under FATCA. Holders should consult their own tax advisors regarding how these rules may apply to their investment in the Covered Bonds.

## CERTAIN ERISA CONSIDERATIONS

*The following is a summary of certain considerations associated with the purchase of the Covered Bonds by employee benefit plans that are subject to Title I of the US Employee Retirement Income Security Act of 1974, as amended (**ERISA**), plans, individual retirement accounts and other arrangements that are subject to Section 4975 of the Code and entities whose underlying assets are considered to include "plan assets" of such plans, accounts and arrangements (each, a **Plan**).*

### General Fiduciary Matters

ERISA imposes certain duties on persons who are fiduciaries of a Plan subject thereto, and ERISA and Section 4975 of the Code prohibit certain transactions involving the assets of a Plan and its fiduciaries or certain other interested parties. In considering an investment in the Covered Bonds of a portion of the assets of any Plan subject to ERISA, a fiduciary should determine whether the investment is in accordance with the documents governing such Plan and the applicable provisions of ERISA, Section 4975 of the Code and/or any Similar Law (as defined below) relating to a fiduciary's duties to such Plan including, without limitation, the prudence, diversification, delegation of control and prohibited transaction provisions of ERISA, Section 4975 of the Code and any other applicable Similar Laws.

### Prohibited Transaction Issues

Section 406 of ERISA and Section 4975 of the Code prohibit ERISA Plans from engaging in specified transactions involving plan assets with persons who are "parties in interest" within the meaning of ERISA, or "disqualified persons" within the meaning of Section 4975 of the Code, unless an exemption applies. A party in interest or disqualified person who engaged in a non-exempt prohibited transaction may be subject to excise taxes and other penalties and liabilities under ERISA and the Code. In addition, the fiduciary of the Plan subject to ERISA that engaged in such a non-exempt prohibited transaction may be subject to penalties and liabilities under ERISA.

Whether or not our underlying assets are deemed to include "plan assets," as described below, the acquisition, holding and/or subsequent disposition of the Covered Bonds by a Plan with respect to which the Issuer, the underwriter, the trustee or the guarantor is considered a party in interest or a disqualified person may constitute or result in a direct or indirect prohibited transaction under Section 406 of ERISA and/or Section 4975 of the Code, unless the investment is acquired, held and subsequently disposed of in accordance with an applicable statutory, class or individual prohibited transaction exemption. In this regard, the US Department of Labor (the **DOL**) has issued prohibited transaction class exemptions, or **PTCEs**, that may apply to the acquisition, holding and disposition of the Covered Bonds. Certain exemptions from the prohibited transaction provisions of Section 406 of ERISA and Section 4975 of the Code may be applicable, however, depending in part on the type of Plan fiduciary making the decision to acquire a Covered Bond and the circumstances under which such decision is made. Included among these exemptions are Section 408(b)(17) of ERISA and Section 4975(d)(20) of the Code (relating to certain transactions between a plan and a non-fiduciary service provider), PTCE 91-38 (relating to investments by bank collective investment funds), PTCE 84-14 (relating to transactions effected by a **qualified professional asset manager**), PTCE 90-1 (relating to investments by insurance company pooled separate accounts), PTCE 95-60 (relating to investments by insurance company general accounts), and PTCE 96-23 (relating to transactions effected by in-house asset managers). There can be no assurance that any of these PTCEs or any other exemption will be available with respect to any particular transaction involving the Covered Bonds.

Governmental plans (as defined in Section 3(32) of ERISA), certain church plans (as defined in Section 3(33) of ERISA) and non-US plans (as described in Section 4(b)(4) of ERISA), while not subject to the fiduciary responsibility provisions of ERISA or the provisions of Section 4975 of the Code, may nevertheless be subject to other federal, state, local or non-US laws or regulations that are substantially similar to the foregoing provisions of ERISA and the Code (**Similar Law**).

**Plan Asset Issues**

**"Look-through" Rule.** Under the "look-through" rule set forth in the regulations issued by the DOL (the **Plan Assets Regulation**), as modified by Section 3(42) of ERISA, the underlying assets owned by an entity (such as an Issuer) in which a Plan has an equity interest might be treated as if they were plan assets of such Plan. However, the "look-through" rule does not, by its terms, apply to an entity in which a Plan only owns debt of such entity and not an equity interest. The Plan Assets Regulation provides that an instrument constituting debt under applicable local law and lacking substantial equity features is not treated as an equity interest for purposes of such Regulation. If the Covered Bonds are treated as equity interests for purposes of the Plan Assets Regulation, the assets of the Issuer might be treated as "plan assets" of Plans that acquire or hold such Covered Bonds unless an exception to the look-through rule under the Plan Assets Regulation applies. While there is little pertinent authority in this area and no assurance can be given, the Issuer believes that the Covered Bonds should not be treated as equity interests for the purposes of the Plan Assets Regulation.

**Operating Company.** One exception to the look through rule provides that when a Plan acquires an equity interest in an entity that is an "operating company" the underlying assets of such entity will not be deemed "plan assets". Under the Plan Assets Regulation, an "operating company" is defined as "an entity that is primarily engaged, directly or through a majority owned subsidiary or subsidiaries, in the production or sale of a product or service other than the investment of capital". The Issuer believes that it is an "operating company" for purposes of the Plan Assets Regulation, although no assurance can be given in this regard.

**Plan Assets Consequences.** If equity securities of the Issuer are held by Benefit Plan Investors (as defined in Section 3(42) of ERISA) and the Issuer is not an operating company for purposes of the Plan Assets Regulation the Issuer's assets could be deemed to be "plan assets" under ERISA unless, at such time, another exemption is available under the Plan Assets Regulation. This would result, among other things, in (i) the application of the prudence and other fiduciary responsibility standards of ERISA to investments made by the Issuer, and (ii) the possibility that certain transactions in which the Issuer might seek to engage could constitute "prohibited transactions" under ERISA and the Code.

**Representation**

Accordingly, by acceptance of the Covered Bonds, each purchaser and subsequent transferee of the Covered Bonds will be deemed to have represented and warranted that either (i) no portion of the assets used by such purchaser or transferee to acquire and hold the Covered Bonds constitutes assets of any Plan or any governmental, church or non-US plan that is subject to Similar Law, or (ii) the acquisition, holding and disposition of the Covered Bonds by such purchaser or transferee will not constitute a non-exempt prohibited transaction under Section 406 of ERISA or Section 4975 of the Code or any similar violation under any applicable Similar Laws.

The foregoing discussion is general in nature and is not intended to be all-inclusive. Due to the complexity of these rules and the penalties that may be imposed upon persons involved in non-exempt prohibited transactions, it is particularly important that fiduciaries, or other persons considering purchasing the Covered Bonds on behalf of, or with the assets of, any Plan or any governmental, church or non-US plan, consult with their counsel regarding the potential applicability of ERISA, Section 4975 of the Code and any Similar Laws to such investment and whether an exemption would be applicable to the acquisition, holding and disposition of the Covered Bonds.

## CERTAIN INVESTMENT COMPANY ACT CONSIDERATIONS

The LLP is not now, and solely after giving effect to any offering and sale of Covered Bonds pursuant to the Trust Deed will not be, a "covered fund" for purposes of regulations adopted under Section 13 of the Bank Holding Company Act of 1956, as amended, commonly known as the "Volcker Rule." In reaching this conclusion, although other statutory or regulatory exemptions under the Investment Company Act of 1940, as amended (**Investment Company Act**), and under the Volcker Rule and its related regulations may be available, we have relied on the determinations that:

- the LLP may rely on the exemption from registration under the Investment Company Act provided by Section 3(c)(5)(C) thereunder, and accordingly the LLP does not rely on Section 3(c)(1) or Section 3(c)(7) of the Investment Company Act for its exemption from registration under the Investment Company Act and may rely on the exemption from the definition of a "covered fund" under the Volcker Rule made available to entities that do not rely solely on Section 3(c)(1) or Section 3(c)(7) of the Investment Company Act for their exemption from registration under the Investment Company Act.

## SUBSCRIPTION AND SALE AND TRANSFER AND SELLING RESTRICTIONS

The Dealers have, in a programme agreement dated 30 November 2005 and amended and restated on 25 June 2007, 30 April 2008, 1 July 2010, 7 January 2011 and 31 July 2015 (as the same may be further amended and/or supplemented and/or restated from time to time, the **Programme Agreement**) agreed with the Issuer and the LLP a basis upon which such Dealers or any of them may from time to time agree to purchase Covered Bonds. Any such agreement for any particular purchase by a Dealer will extend to those matters stated under "*Form of the Covered Bonds and Terms and Conditions of the Covered Bonds*" above. The Issuer may pay the Dealers commission from time to time in connection with the sale of any Covered Bonds, and in the Programme Agreement, the Issuer has agreed to reimburse and indemnify the Dealers for certain of their expenses and liabilities in connection with the establishment and any future updates of the Programme and the issue of Covered Bonds under the Programme. The Dealers are entitled to be released and discharged from their obligations in relation to any agreement to issue and purchase Covered Bonds under the Programme Agreement in certain circumstances prior to payment to the Issuer.

### Transfer Restrictions

*As a result of the following restrictions, purchasers of Covered Bonds in the United States are advised to consult legal counsel prior to making any purchase, offer, sale, resale or other transfer of such Covered Bonds.*

Each purchaser of Covered Bonds and each owner of any beneficial interest therein will be deemed, by its acceptance or purchase thereof, to acknowledge, represent and agree as follows (terms used in this paragraph that are defined in Rule 144A or in Regulation S are as defined therein):

(a) that either: (i) it is a QIB, purchasing (or holding) the Covered Bonds for its own account or for the account of one or more QIBs and it is aware that any sale to it is being made in reliance on Rule 144A, (ii) it is an Institutional Accredited Investor which has delivered an IAI Investment Letter or (iii) it is outside the United States and is not a US person;

(b) that it is not an "affiliate" (as defined in Rule 144 under the Securities Act) of the Issuer and is not acting on the Issuer's behalf;

(c) that the Covered Bonds are being offered and sold in a transaction not involving a public offering in the United States within the meaning of the Securities Act, and that the Covered Bonds and the Covered Bond Guarantee have not been and will not be registered under the Securities Act or any

applicable US state securities laws and may not be offered, sold or delivered within the United States or to, or for the account or benefit of, US persons except as set forth below;

(d) that, unless it holds an interest in a Regulation S Global Covered Bond and either is a person located outside the United States or is not a US person, if in the future it decides to resell, pledge or otherwise transfer the Covered Bonds or any beneficial interests in the Covered Bonds, it will do so, prior to the date which is one year after the later of the last Issue Date for the Series and the last date on which the Issuer or an affiliate of the Issuer was the owner of such Covered Bonds, only (i) to the Issuer or any affiliate thereof, (ii) inside the United States to a person whom the seller reasonably believes is a QIB purchasing for its own account or for the account of a QIB in a transaction meeting the requirements of Rule 144A, (iii) outside the United States in compliance with Rule 903 or Rule 904 under the Securities Act, (iv) pursuant to the exemption from registration provided by Rule 144 under the Securities Act (if available) or (v) pursuant to an effective registration statement under the Securities Act, in each case in accordance with all applicable US state securities laws;

(e) it will, and will require each subsequent holder to, notify any purchaser of the Covered Bonds from it of the resale restrictions referred to in paragraph (d) above or (i) below, if then applicable;

(f) that prior to any proposed transfer of Covered Bonds (other than pursuant to an effective registration statement), the holder of such Covered Bonds may be required to provide certifications relating to the manner of such transfer as provided in the Trust Deed;

(g) that either (i) it is not, and is not purchasing the Covered Bonds on behalf of, or with the assets of, an "**employee benefit plan**" as defined in Section 3(3) of ERISA subject to the fiduciary responsibility provisions thereof, a "**plan**" as defined in and subject to Section 4975 of the Code, an entity whose underlying assets include "plan assets" by reason of any such employee benefit plan's or plan's investment in the entity, or a governmental, church or non-US plan which is subject to Similar Law, or (ii) its acquisition, holding and disposition of the Covered Bonds does not constitute a non-exempt prohibited transaction under Section 406 of ERISA, Section 4975 of the Code, or any similar violation of Similar Law;

(h) that the Legended Covered Bonds will bear a legend to the following effect unless otherwise agreed to by the Issuer:

"THIS SECURITY HAS NOT BEEN REGISTERED UNDER THE US SECURITIES ACT OF 1933, AS AMENDED (THE **SECURITIES ACT**), OR ANY OTHER APPLICABLE US STATE SECURITIES LAWS AND, ACCORDINGLY, MAY NOT BE OFFERED, SOLD OR DELIVERED WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, US PERSONS EXCEPT AS SET FORTH IN THE FOLLOWING SENTENCE. BY ITS ACQUISITION HEREOF, THE HOLDER (A) REPRESENTS THAT (1) IT IS A **QUALIFIED INSTITUTIONAL BUYER** (AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT) PURCHASING THE SECURITIES FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF ONE OR MORE QUALIFIED INSTITUTIONAL BUYERS OR (2) IT IS AN INSTITUTIONAL "ACCREDITED INVESTOR" (AS DEFINED IN RULE 501(A)(1), (2), (3) OR (7) UNDER THE SECURITIES ACT) (AN **INSTITUTIONAL ACCREDITED INVESTOR**); (B) AGREES THAT IT WILL NOT RESELL OR OTHERWISE TRANSFER THE SECURITIES EXCEPT IN ACCORDANCE WITH THE AGENCY AGREEMENT IN RESPECT OF THIS SECURITY (THE **AGENCY AGREEMENT**) AND, PRIOR TO THE DATE WHICH IS ONE YEAR AFTER THE LATER OF THE LAST ISSUE DATE FOR THE SERIES AND THE LAST DATE ON WHICH THE ISSUER OR AN AFFILIATE OF THE ISSUER WAS THE OWNER OF SUCH SECURITIES OTHER THAN (1) TO THE ISSUER OR ANY AFFILIATE THEREOF, (2) INSIDE THE UNITED STATES TO A PERSON WHOM THE SELLER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT

OF A QUALIFIED INSTITUTIONAL BUYER IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A, (3) OUTSIDE THE UNITED STATES IN COMPLIANCE WITH RULE 903 OR RULE 904 UNDER THE SECURITIES ACT, (4) PURSUANT TO THE EXEMPTION FROM REGISTRATION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT (IF AVAILABLE) OR (5) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT, IN EACH CASE IN ACCORDANCE WITH ALL APPLICABLE SECURITIES LAWS OF THE STATES OF THE UNITED STATES AND ANY OTHER JURISDICTION; AND (C) IT AGREES THAT IT WILL DELIVER TO EACH PERSON TO WHOM THIS SECURITY IS TRANSFERRED A NOTICE SUBSTANTIALLY TO THE EFFECT OF THIS LEGEND.

THE ACQUISITION OF THE COVERED BONDS BY, OR ON BEHALF OF, OR WITH THE ASSETS OF ANY **EMPLOYEE BENEFIT PLAN** AS DEFINED IN SECTION 3(3) OF THE EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED (**ERISA**), SUBJECT TO THE FIDUCIARY RESPONSIBILITY PROVISIONS THEREOF, ANY **PLAN** AS DEFINED IN AND SUBJECT TO SECTION 4975 OF THE INTERNAL REVENUE CODE OF 1986, AS AMENDED (THE **CODE**), OR ANY ENTITY PART OR ALL OF THE ASSETS OF WHICH CONSTITUTE ASSETS OF ANY SUCH EMPLOYEE BENEFIT PLAN OR PLAN BY REASON OF US DEPARTMENT OF LABOR REGULATION SECTION 2510.3-101 AS MODIFIED BY SECTION 3(42) OF ERISA (COLLECTIVELY **BENEFIT PLAN INVESTORS**), OR ANY GOVERNMENTAL, CHURCH OR NON-US PLAN SUBJECT TO FEDERAL, STATE, LOCAL, OR NON-US LAW SUBSTANTIALLY SIMILAR TO THE FIDUCIARY RESPONSIBILITY PROVISIONS OF ERISA OR SECTION 4975 OF THE CODE IS PROHIBITED UNLESS SUCH ACQUISITION, HOLDING AND SUBSEQUENT DISPOSITION OF THE COVERED BONDS WOULD NOT RESULT IN ANY NON-EXEMPT PROHIBITED TRANSACTION UNDER SECTION 406 OF ERISA OR UNDER SECTION 4975 OF THE CODE (OR, IN THE CASE OF A GOVERNMENTAL, CHURCH OR NON-US PLAN, ANY SUBSTANTIALLY SIMILAR FEDERAL, STATE, LOCAL, OR NON-US LAW).

THIS SECURITY AND RELATED DOCUMENTATION (INCLUDING, WITHOUT LIMITATION, THE AGENCY AGREEMENT REFERRED TO HEREIN) MAY BE AMENDED OR SUPPLEMENTED FROM TIME TO TIME, WITHOUT THE CONSENT OF, BUT UPON NOTICE TO, THE HOLDERS OF SUCH SECURITIES SENT TO THEIR REGISTERED ADDRESSES, TO MODIFY THE RESTRICTIONS ON AND PROCEDURES FOR RESALES AND OTHER TRANSFERS OF THIS SECURITY TO REFLECT ANY CHANGE IN APPLICABLE LAW OR REGULATION (OR THE INTERPRETATION THEREOF) OR IN PRACTICES RELATING TO RESALES OR OTHER TRANSFERS OF RESTRICTED SECURITIES GENERALLY. THE HOLDER OF THIS SECURITY SHALL BE DEEMED, BY ITS ACCEPTANCE OR PURCHASE HEREOF, TO HAVE AGREED TO ANY SUCH AMENDMENT OR SUPPLEMENT (EACH OF WHICH SHALL BE CONCLUSIVE AND BINDING ON THE HOLDER HEREOF AND ALL FUTURE HOLDERS OF THIS SECURITY AND ANY SECURITIES ISSUED IN EXCHANGE OR SUBSTITUTION THEREFOR, WHETHER OR NOT ANY NOTATION THEREOF IS MADE HEREON).";

(i) if it is outside the United States and is not a US person, that if it should resell or otherwise transfer the Covered Bonds prior to the expiration of the distribution compliance period (defined as the period that ends 40 days after the completion of the distribution of the Tranche of Covered Bonds of which such Covered Bonds are a part, as determined and certified by the relevant Dealer, in the case of a non-syndicated issue, or the Lead Manager, in the case of a syndicated issue), it will do so only (A)(i) outside the United States in compliance with Rule 903 or 904 under the Securities Act or (ii) to a QIB in compliance with Rule 144A and (B) in accordance with the Securities Act and all applicable US state securities laws; and it acknowledges that the Regulation S Global Covered Bonds will bear a legend to the following effect unless otherwise agreed to by the Issuer:

"THIS SECURITY HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE US SECURITIES ACT OF 1933, AS AMENDED (THE **SECURITIES ACT**), OR ANY APPLICABLE US STATE SECURITIES LAWS AND, ACCORDINGLY, MAY NOT BE OFFERED, SOLD OR DELIVERED WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, US PERSONS EXCEPT IN ACCORDANCE WITH THE AGENCY AGREEMENT IN RESPECT OF THIS SECURITY (THE **AGENCY AGREEMENT**) AND PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT OR PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT. UNTIL THE EXPIRY OF THE PERIOD OF 40 DAYS AFTER THE COMPLETION OF THE DISTRIBUTION OF ALL THE COVERED BONDS OF THE TRANCHE OF WHICH THIS COVERED BOND FORMS PART AS DETERMINED AND CERTIFIED BY THE RELEVANT DEALER, IN THE CASE OF A NON-SYNDICATED ISSUE, OR THE LEAD MANAGER, IN THE CASE OF A SYNDICATED ISSUE, SALES MAY NOT BE MADE IN THE UNITED STATES OR TO US PERSONS UNLESS MADE (A) PURSUANT TO RULE 903 OR 904 OR REGULATION S UNDER THE SECURITIES ACT OR (B) TO QUALIFIED INSTITUTIONAL BUYERS AS DEFINED IN, AND IN TRANSACTIONS PURSUANT TO, RULE 144A UNDER THE SECURITIES ACT."; and

(j) that the Issuer and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements and agrees that if any of such acknowledgements, representations or agreements made by it are no longer accurate, it shall promptly notify the Issuer; and if it is acquiring any Covered Bonds as a fiduciary or agent for one or more accounts it represents that it has sole investment discretion with respect to each such account and that it has full power to make the foregoing acknowledgements, representations and agreements on behalf of each such account.

Institutional Accredited Investors who purchase Registered Covered Bonds in definitive form offered and sold in the United States in reliance upon the exemption from registration provided by Regulation D under the Securities Act are required to execute and deliver to the Registrar an IAI Investment Letter. Upon execution and delivery of an IAI Investment Letter by an Institutional Accredited Investor, Covered Bonds will be issued in definitive registered form. See "*Form of the Covered Bonds*".

The IAI Investment Letter will state, among other things, the following:

(a) that the Institutional Accredited Investor has received a copy of the Base Prospectus and such other information as it deems necessary in order to make its investment decision;

(b) that the Institutional Accredited Investor understands that any subsequent transfer of the Covered Bonds is subject to certain restrictions and conditions set forth in the Base Prospectus and the Covered Bonds (including those set out above) and that it agrees to be bound by, and not to resell, pledge or otherwise transfer the Covered Bonds except in compliance with, such restrictions and conditions and the Securities Act;

(c) that, in the normal course of its business, the Institutional Accredited investor invests in or purchases securities similar to the Covered Bonds;

(d) that the Institutional Accredited Investor is an institution that is an accredited investor within the meaning of Rule 501(a)(1), (2), (3) or (7) of Regulation D under the Securities Act and has such knowledge and experience in financial and business matters as to be capable of evaluating the merits and risks of its investment in the Covered Bonds, and it and any accounts for which it is acting are each able to bear the economic risk of its or any such accounts' investment for an indefinite period of time;

(e) that the Institutional Accredited Investor is acquiring the Covered Bonds purchased by it for its own account or for one or more accounts (each of which is an Institutional Accredited Investor) as to

each of which it exercises sole investment discretion and not with a view to any distribution of the Covered Bonds, subject, nevertheless, to the understanding that the disposition of its property shall at all times be and remain within its control; and

(f) that, in the event that the Institutional Accredited Investor purchases Covered Bonds, it will acquire Covered Bonds having a minimum purchase price of at least US$500,000 (or the approximate equivalent in another Specified Currency).

**Selling Restrictions**

*United Kingdom*

Each Dealer has represented and agreed and each further Dealer appointed under the Programme will be required to represent and agree, that:

(a) in relation to any Covered Bonds which have a maturity of less than one year, (i) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business and (ii) it has not offered, sold or delivered and will not offer, sell or deliver any Covered Bonds other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or as agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses where the issue of such Covered Bonds would otherwise constitute a contravention of Section 19 of the FSMA 2000 by the Issuer;

(b) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA 2000) received by it in connection with the issue or sale of any Covered Bonds in circumstances in which Section 21(1) of the FSMA 2000 does not apply to the LLP or, in the case of the Issuer would not, if it was not an authorised person, apply to the Issuer; and

(c) it has complied and will comply with all applicable provisions of the FSMA 2000 with respect to anything done by it in relation to any Covered Bonds in, from or otherwise involving the UK.

*United States*

Each Dealer has acknowledged that the Covered Bonds and the Covered Bond Guarantee have not been and will not be registered under the Securities Act and may not be offered, sold or delivered directly or indirectly within the United States or to, or for the account or benefit of, US persons except in certain transactions exempt from, or in transactions not subject to, the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

In connection with any Covered Bond represented by a Regulation S Global Covered Bond or any Definitive Regulation S Covered Bond (**Regulation S Covered Bond**), each Dealer has represented and agreed that it will not offer, sell or deliver any such Regulation S Covered Bond within the United States or to, or for the account or benefit of, US persons (a) as part of its distribution at any time or (b) otherwise until 40 days after the completion of the distribution of the Tranche of Covered Bonds of which such Covered Bonds are a part, as determined and certified by the relevant Dealer, in the case of a non-syndicated issue, or the Lead Manager, in the case of a syndicated issue (such period, the **Distribution Compliance Period**). Each Dealer has further agreed, and each further Dealer appointed under the Programme will be required to agree, that it will send to each dealer to which it sells any Regulation S Covered Bonds during the Distribution Compliance Period a confirmation or other notice setting forth the restrictions on offers and sales of such Regulation S Covered Bond within the United States or to, or for the account or benefit of, US persons. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

Each Dealer has also agreed that, at or prior to confirmation of sale of Regulation S Covered Bonds, it will have sent to each distributor, dealer or person receiving a selling concession, fee or other remuneration that purchases Regulation S Covered Bonds from it during the distribution compliance period a confirmation or notice to substantially the following effect:

"The Securities covered hereby have not been registered under the U.S. Securities Act of 1933, as amended (the **Securities Act**), and may not be offered, sold or delivered within the United States or to, or for the account or benefit of, U.S. persons (i) as part of their distribution at any time or (ii) otherwise until 40 days after the completion of the distribution of the Tranche of Covered Bonds of which such Covered Bonds are a part, as determined and certified by the relevant Dealer, in the case of a non-syndicated issue, or the Lead Manager, in the case of a syndicated issue. Terms used above have the meanings given to them by Regulation S."

Each Dealer has represented and agreed that it, its affiliates or any persons acting on its or their behalf have not engaged and will not engage in any directed selling efforts with respect to any Covered Bonds, and it and they have complied and will comply with the offering restrictions requirement of Regulation S.

Until 40 days after the commencement of the offering of a Tranche of Covered Bonds, an offer or sale of any Regulation S Covered Bond within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A or any other available exemption from registration under the Securities Act.

Each Dealer has confirmed that the Bearer Covered Bonds are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. tax regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986, as amended, and regulations promulgated thereunder.

In addition, in respect of Bearer Covered Bonds where TEFRA D is specified in the applicable Final Terms:

(a) except to the extent permitted under U.S. Treas. Reg. Section 1.163-5(c)(2)(i)(D) (or any successor U.S. Treasury Regulation Section including, without limitation, successor regulations issued in accordance with U.S. Internal Revenue Service Notice 2012-20 or otherwise in connection with the U.S. Hiring Incentives to Restore Employment Act of 2010) (the **D Rules**), each Dealer (i) has represented that it has not offered, sold or delivered, and has agreed that during the restricted period it will not offer, sell or deliver, Bearer Covered Bonds to a person who is within the United States or its possessions or to a United States person, and (ii) has represented that it has not delivered and has agreed that it will not deliver within the United States or its possessions Bearer Definitive Covered Bonds that are sold during the restricted period;

(b) each Dealer has represented that it has and has agreed that throughout the restricted period it will have in effect procedures reasonably designed to ensure that its employees or agents who are directly engaged in selling Bearer Covered Bonds are aware that such Bearer Covered Bonds may not be offered, sold or delivered during the restricted period to a person who is within the United States or its possessions or to a United States person, except as permitted by the D Rules;

(c) each Dealer which is a United States person has represented that it is acquiring Bearer Covered Bonds for purposes of resale in connection with their original issuance and that if it retains Bearer Covered Bonds for its own account, it will only do so in accordance with the requirements of U.S. Treas. Reg. Section l.163-5(c)(2)(i)(D)(6) (or any successor U.S. Treasury Regulation Section including, without limitation, successor regulations issued in

accordance with U.S. Internal Revenue Service Notice 2012-20 or otherwise in connection with the U.S. Hiring Incentives to Restore Employment Act of 2010);

(d) with respect to each affiliate that acquires Bearer Covered Bonds from a Dealer for the purpose of offering or selling such Bearer Covered Bonds during the restricted period, such Dealer will repeat and confirm the representations and agreements contained in (a), (b) and (c) above on such affiliate's behalf; and

(e) each Dealer has agreed that it will obtain from any distributor (within the meaning of U.S. Treas. Reg. Section 1.163-5(c)(2)(i)(D)(4)(ii) (or any successor U.S. Treasury Regulation Section including, without limitation, successor regulations issued in accordance with U.S. Internal Revenue Service Notice 2012-20 or otherwise in connection with the U.S. Hiring Incentives to Restore Employment Act of 2010)) that purchases any Bearer Covered Bonds from it pursuant to a written contract with such Dealer (except a distributor that is one of its affiliates or is another Dealer), for the benefit of the Issuer and each other Dealer, the representations contained in, and such distributor's agreement to comply with, the provisions of (a), (b), (c) and (d) above insofar as they relate to the D Rules, as if such distributor were a Dealer hereunder.

Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986, as amended (the **Code**) and the Treasury regulations promulgated thereunder (the **Regulations**), including the D Rules.

In respect of Bearer Covered Bonds where TEFRA C is specified in the applicable Final Terms, each Dealer understands that under U.S. Treas. Reg. Section 1.163-5(c)(2)(i)(C) (or any successor U.S. Treasury Regulation Section including, without limitation, successor regulations issued in accordance with U.S. Internal Revenue Service Notice 2012-20 or otherwise in connection with the U.S. Hiring Incentives to Restore Employment Act of 2010) (the **C Rules**) such Bearer Covered Bonds must be issued and delivered outside the United States and its possessions in connection with their original issuance. Each Dealer represents and agrees that it has not offered, sold or delivered, and will not offer, sell or deliver, directly or indirectly, such Bearer Covered Bonds within the United States or its possessions in connection with their original issuance. Further, each Dealer represents and agrees in connection with the original issuance of such Bearer Covered Bonds that it has not communicated, and will not communicate, directly or indirectly, with a prospective purchaser if either the Dealer or such prospective purchaser is within the United States or its possessions or otherwise involve a U.S. office of the Dealer in the offer or sale of such Bearer Covered Bonds. Terms used in this paragraph have the meanings given to them by the Code and the Regulations, including the C Rules.

Notwithstanding anything above to the contrary, it is understood that Registered Covered Bonds may be offered and sold pursuant to a private placement in the United States or to or for the account or benefit of United States persons, and in connection therewith each Dealer has represented and agreed that:

(a) offers, sales, resales and other transfers of Covered Bonds made in the United States or to or for the account or benefit of United States persons made or approved by a Dealer (including offers, resales or other transfers made or approved by a Dealer in connection with secondary trading) shall be made with respect to Registered Covered Bonds only and shall be effected pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act;

(b) offers, sales, resales and other transfers of Registered Covered Bonds made in the United States or to or for the account or benefit of United States persons will be made only in private transactions to (1) a limited number of institutional investors that are institutional accredited investors (as defined in Rule 501(a) (1), (2), (3) or (7) of Regulation D under the Securities Act, each such institutional investor being hereinafter referred to as an

Institutional Accredited Investor) that have executed and delivered to a Dealer an IAI Investment Letter), (2) so long as the Covered Bonds are eligible for resale pursuant to Rule 144A under the Securities Act, institutional investors that are reasonably believed to qualify as qualified institutional buyers within the meaning of Rule 144A (each such institutional investor being hereinafter referred to as a **QIB**), (3) pursuant to an exemption from registration under the Securities Act provided by Rule 144 under the Securities Act (if available) and in each of such cases in accordance with any applicable securities laws of any State of the United States or other applicable jurisdiction or (4) pursuant to another available exemption from registration under the Securities Act (if any). Each Dealer has agreed to notify the related purchaser of Registered Covered Bonds of the private offering nature of such purchase and, accordingly, that such Covered Bonds are subject to the resale and other transfer restrictions referred to above. Neither any Dealer nor the Issuer or the LLP will be liable for any resales or other transfers made in violation of the foregoing conditions if such resale or transfer was not made by or through the party against whom such liability is sought to be imposed;

(c) the Registered Covered Bonds will be offered in the United States or to or for the account or benefit of United States persons only by approaching prospective purchasers on an individual basis. No general solicitation or general advertising within the meaning of Rule 502(c) under the Securities Act will be used in connection with the offering of the Registered Covered Bonds in the United States;

(d) no sale of Registered Covered Bonds in the United States to (i) any one Institutional Accredited Investor will be for less than U.S.$500,000 (or the approximate equivalent in another Specified Currency) principal amount and (ii) any one QIB will be for less than U.S.$100,000 (or the approximate equivalent in another Specified Currency) principal amount and no Covered Bonds will be issued in connection with such a sale in a smaller principal amount. If such purchaser is a non-bank fiduciary acting on behalf of others, each person for whom it is acting must purchase at least U.S.$500,000 (or the approximate equivalent in another Specified Currency) (in the case of (i) above) or U.S.$100,000 (or the approximate equivalent in another Specified Currency in the case of (ii) above) principal amount of the Covered Bonds. The U.S.$100,000 and U.S.$500,000 minimum purchase amounts (or the approximate equivalent in another Specified Currency) applies to Covered Bonds of each maturity and interest rate (or method of calculating interest) and may not be spread among Covered Bonds of different maturities or interest rates (or methods of calculating interest);

(e) each Registered Covered Bond sold as a part of a private placement in the United States or to or for the account or benefit of United States persons and each Regulation S Global Covered Bond or Definitive Regulation S Covered Bond shall contain a legend in substantially the form set out on the face of such Covered Bond in the Trust Deed; and

(f) each Dealer may offer and sell Registered Covered Bonds in the United States or to United States persons only if such Dealer is a registered broker-dealer in the United States or through its selling agent which is a registered broker-dealer in the United States in compliance with the Exchange Act.

The Issuer has represented and agreed that any resale or other transfer, or attempted resale or other transfer of Covered Bonds sold as part of a private placement in the United States made other than in compliance with the restrictions set out in this paragraph shall not be recognised by the Issuer or the LLP or any agent of the Issuer or the LLP and shall be void.

Each issue of Indexed Linked Covered Bonds or Dual Currency Covered Bonds may be subject to such additional U.S. selling restrictions as the Issuer and the relevant Dealer may agree as a term of the issue and

purchase of such Covered Bonds, which shall be set out in the applicable Final Terms. The relevant Dealer has agreed that it shall offer, sell or deliver such Covered Bonds only in compliance with such additional U.S. selling restrictions.

*Public Offer Selling Restriction under the Prospectus Directive*

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a **Relevant Member State**), each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the **Relevant Implementation Date**) it has not made and will not make an offer of Covered Bonds which are the subject of an offering contemplated by this Prospectus as completed by the Final Terms in relation thereto to the public in that Relevant Member State, except that it may, with effect from and including the Relevant Implementation Date, make an offer of such Covered Bonds to the public in that Relevant Member State:

(a) *Authorised institutions*: at any time to any legal entity which is a qualified investor as defined in the Prospectus Directive;

(b) *Fewer than 150 offerees*: at any time to fewer than 150 natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by the Issuer for any such offer; or

(c) *Other Exempt offers*: at any time in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Covered Bonds referred to in (a) to (c) above shall require the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, the expression "offer of Covered Bonds to the public" in relation to any Covered Bonds in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Covered Bonds to be offered so as to enable an investor to decide to purchase or subscribe for the Covered Bonds, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression **Prospectus Directive** means Directive 2003/71/EC (as amended, including by Directive 2010/73/EU), and includes any relevant implementing measure in each Relevant Member State.

*Japan*

The Covered Bonds have not been and will not be registered under the Financial Instruments and Exchange Act (Act No. 25 of 1948, as amended: the **FIEA**). Accordingly each Dealer has represented and agreed that it has not, directly or indirectly, offered, sold or delivered and will not directly or indirectly offer, sell or deliver any Covered Bonds in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organised under the laws of Japan), or to others for re-offering or resale, directly or indirectly, in Japan or to, or for the benefit of any resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the FIEA and other relevant laws and regulations of Japan.

*Republic of Italy*

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that the offering of the Covered Bonds has not been registered pursuant to Italian securities legislation and, accordingly, the Covered Bonds may not be offered, sold or delivered, nor

may copies of the Base Prospectus or of any other document relating to the Covered Bonds be distributed in the Republic of Italy, except:

(a) to qualified investors ("*investitori qualificati*"), as defined in Article 100 of Legislative Decree no.58 of 24 February 1998, as amended (the **Financial Services Act**) and Article 34, first paragraph, of Regulation No. 11971 of 14 May 1999 (**Regulation No. 11971**) of Italian Securities Exchange Commission (**CONSOB**), all as amended from time to time; or

(b) in other circumstances which are exempted from the rules on solicitation of investments pursuant to Article 100 of the Financial Services Act and Regulation No. 11971.

In any event, any offer, sale or delivery of the Covered Bonds or distribution of copies of this Base Prospectus or any other document relating to the Covered Bonds in the Republic of Italy under (a) or (b) above must be:

(i) made by an investment firm, bank or financial intermediary permitted to conduct such activities in the Republic of Italy in accordance with the Financial Services Act, CONSOB Regulation No. 16190 of 29 October 2007 (as amended from time to time) and Legislative Decree No. 385 of 1 September 1993, as amended (the **Italian Banking Act**);

(ii) in compliance with Article 129 of the Italian Banking Act and the implementing guidelines of the Bank of Italy (as amended from time to time) pursuant to which the Bank of Italy may request information on the issue or the offer of securities in the Republic of Italy; and

(iii) in accordance with any other applicable laws and regulations including those imposed by CONSOB or other Italian authority.

*General*

These selling restrictions may be modified by the agreement of the Issuer and any relevant Dealer following a change in a relevant law, regulation or directive. Any such modification and any additional selling restrictions with which any relevant Dealer will be required to comply will be set out in the Final Terms issued in respect of the issue of Covered Bonds to which it relates or in a supplement to this Base Prospectus.

Each Dealer has agreed that it will comply with all applicable securities laws, directives and regulations in force in any jurisdiction in which it purchases, offers, sells or delivers Covered Bonds or possesses or distributes this Base Prospectus, any other offering material or any Final Terms and will obtain any consent, approval or permission required by it for the purchase, offer, sale or delivery by it of Covered Bonds under the laws, directives and regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, offers, sales or deliveries and none of the Issuer, the LLP, the Bond Trustee, the Security Trustee nor any of the other Dealers shall have any responsibility therefor. Furthermore, they will not directly or indirectly offer, sell or deliver any Covered Bonds or distribute or publish any form of application, base prospectus, advertisement or other offering material except under circumstances that will, to the best of their knowledge and belief, result in compliance with any applicable laws and regulations, and all offers, sales and deliveries of Covered Bonds by them will be made on the same terms.

None of the Issuer, the LLP, the Bond Trustee, the Security Trustee or any of the Dealers represents that Covered Bonds may at any time lawfully be sold in compliance with any applicable registration or other requirements in any jurisdiction, or pursuant to any exemption available thereunder, or assumes any responsibility for facilitating such sale.

With regard to each Tranche, the relevant Dealer(s) will be required to comply with such other restrictions as the Issuer and the relevant Dealer(s) shall agree as a term of issue and purchase as indicated in the applicable Final Terms.

Each Dealer will, unless prohibited by applicable law, furnish to each person to whom they offer, sell or deliver Covered Bonds a copy of the Base Prospectus as then amended or supplemented or, unless delivery of the Base Prospectus is required by applicable law, inform each such person that a copy will be made available upon request. The Dealers are not authorised to give any information or to make any representation not contained in the Base Prospectus in connection with the offer and sale of Covered Bonds to which the Base Prospectus relates.

This Base Prospectus may be used by the Dealers for offers and sales related to market-making transactions in the Covered Bonds. Any or each of the Dealers may act as principal or agent in these transactions. These sales will be made at prices relating to prevailing market prices at the time of sale. None of the Dealers has any obligation to make a market in the Covered Bonds, and any market-making may be discontinued at any time without notice. The Dealers are participating in the initial distribution of the Covered Bonds.

## GENERAL INFORMATION

### Authorisation

The establishment of the Programme and the issue of Covered Bonds were duly authorised by resolutions of the board of directors of the Issuer dated 16 March 2005 and 19 October 2005 and the minutes of delegation of the Issuer's Group Finance Director dated 5 April 2005. The giving of the Covered Bond Guarantee was duly authorised by a resolution of the board of directors of Nationwide in its capacity as Member of the LLP dated 19 October 2005.

The update of the Programme has been duly authorised by a resolution of the management board of the LLP dated 28 July 2016.

### Listing of Covered Bonds

The admission of Covered Bonds to the Official List will be expressed as a percentage of their nominal amount (excluding accrued interest). It is expected that each Tranche of Covered Bonds which is to be admitted to the Official List and to trading on the regulated market of the London Stock Exchange will be admitted separately as and when issued, subject only to the issue of a Temporary Global Covered Bond, a Permanent Global Covered Bond, a Regulation S Global Covered Bond, a Rule 144A Global Covered Bond or a Definitive IAI Registered Covered Bond, as the case may be, initially representing the Covered Bonds of such Tranche. The listing of the Programme in respect of Covered Bonds is expected to be granted on or about 29 July 2016.

### Documents Available

So long as Covered Bonds are capable of being issued under the Programme, copies of the following documents will, when published, be available to holders of the Covered Bonds during usual business hours on any weekday (Saturdays, Sundays and public holidays excepted) from the principal office of the Issuer and from the specified office of the Paying Agent for the time being in London:

(a) the constitutive documents of the LLP and the Issuer;

(b) the consolidated audited financial statements of the Issuer in respect of the financial years ended 4 April 2014, 4 April 2015 and 4 April 2016. The Issuer currently prepares audited accounts on an annual basis;

(c) the audited financial statements of the LLP for the financial years ended 4 April 2014, 4 April 2015 and 4 April 2016. The LLP currently prepares audited accounts on an annual basis;

(d) the most recently published audited annual financial statements of the Issuer and the most recently published consolidated unaudited interim financial statements (if any) of the Issuer. The Issuer currently prepares unaudited consolidated and non-consolidated interim accounts on a semi-annual basis;

(e) the forms of the Global Covered Bonds, the Definitive Covered Bonds, the Coupons and the Talons;

(f) a copy of this Base Prospectus;

(g) any future base prospectuses, information memoranda and supplements including Final Terms (save that Final Terms relating to an unlisted Covered Bond will be available for inspection only by the relevant Dealer or Dealers specified in such Final Terms or, upon proof satisfactory to the Principal Paying Agent or the Registrar, as the case may be, as to the identity of the holder of any Covered

Bond to which such Final Terms relate) to this Base Prospectus and any other documents incorporated herein or therein by reference; and

(h) each Transaction Document.

In addition, copies of this Prospectus, any documents incorporated by reference and each Final Terms relating to the Covered Bonds issued pursuant to this Prospectus will also be available for inspection on the website of the Regulatory News Service operated by the London Stock Exchange at www.londonstockexchange.com/exchange/prices-and-news/news/market-news/market-news-home.html.

**Clearing Systems**

The Bearer Global Covered Bonds have been accepted for clearance through Euroclear and Clearstream, Luxembourg. The appropriate Common Code and ISIN for each Tranche of Bearer Global Covered Bonds allocated by Euroclear and Clearstream, Luxembourg will be specified in the applicable Final Terms. In addition, the Issuer may make an application for any Registered Covered Bonds to be accepted for trading in book-entry form by DTC. The CUSIP and/or CINS numbers for each Tranche of Registered Covered Bonds, together with the relevant ISIN and Common Code, will be specified in the applicable Final Terms. If the Covered Bonds are to clear through an additional or alternative clearing system, the appropriate information will be specified in the applicable Final Terms.

**Yield**

In relation to any Series or Tranche of Fixed Rate Covered Bonds, an indication of the yield in respect of such Covered Bonds will be specified in the applicable Final Terms. The yield is calculated at the Issue Date of the Covered Bonds on the basis of the relevant Issue Price. The yield indicated will be calculated as the yield to maturity as at the Issue Date of the Covered Bonds and will not be an indication of future yield.

**Significant or Material Change**

There has been no significant change in the financial or trading position of the Issuer, the LLP or the Nationwide Group since 4 April 2015, being the date of the most recent annual audited financial statements of the Issuer, the LLP and the Nationwide Group, and there has been no material adverse change in the financial position or the prospects of the Issuer, the LLP or of the Nationwide Group since 4 April 2016.

**Litigation**

There have not been and there are no governmental, legal or arbitration proceedings which may have or have had in the 12 months prior to the date hereof, a significant effect on the financial position or profitability of the Nationwide Group or the Issuer or the LLP nor, so far as the Issuer or the LLP is aware, are any such proceedings pending or threatened.

**Independent Auditors**

The financial statements of the Issuer as at 4 April 2016, 4 April 2015 and 4 April 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 report incorporated by reference herein.

The financial statements of the LLP as of 4 April 2016, 4 April 2015 and 4 April 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 report incorporated by reference herein.

**Reports**

The Trust Deed provides that the Bond Trustee may rely on reports or other information from professional advisers or other experts in accordance with the provisions of the Trust Deed, whether or not any such report or other information, or engagement letter or other document entered into by the Bond Trustee and the relevant person in connection therewith, contains any monetary or other limit on the liability of the relevant person.

In addition, the Issuer is required, pursuant to the terms of the RCB Regulations, to provide loan level information relating to the Loans in the Asset Pool and to display the Transaction Documents related to the Programme. The loan level information and the Transaction Documents shall be posted on http://www.nationwide.co.uk/investorrelations/default.htm. Please note that websites and URLs referred to herein do not form part of this Prospectus.

**Contracts**

There are no material contracts having been entered into outside the ordinary course of Issuer's business, and which could result in any member of the Nationwide Group being under an obligation or entitlement that is material to our ability to meet our obligation to Covered Bond holders in respect of the Covered Bonds being issued.

**Post-issuance information**

The Issuer provides monthly Investor Reports which are available online from the Issuer's website, detailing, *inter alia*, compliance with the Asset Coverage Test.

## GLOSSARY

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| **1999 Regulations** | Unfair Terms in Consumer Contracts Regulations 1999, as amended; |
| **2010 Act** | Home Owner and Debtor Protection (Scotland) Act 2010; |
| **€**, **Euro** or **euro** | The lawful currency for the time being of the Member States of the European Union that have adopted or may adopt the single currency in accordance with the treaty establishing the European Community (signed in Rome on 25 March 1957), as amended by the treaty on European Union; |
| **£** and **Sterling** | The lawful currency for the time being of the United Kingdom of Great Britain and Northern Ireland; |
| **$** and **US Dollars** | The lawful currency for the time being of the United States of America; |
| **¥**, **Yen** and **JPY** | Japanese Yen; |
| **Account Bank** | Nationwide and/or, as the context may require, any Additional Account Bank; |
| **Account Bank Required Ratings** | The meaning given in *"Summary of the Principal Documents"* on page 242; |
| **Accrual Period** | 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; |
| **Accrued Interest** | In respect of a Loan as at any date, the aggregate of all interest accrued but not yet due and payable on the Loan from (and including) the Monthly Payment Date immediately preceding the relevant date to (but excluding) the relevant date; |
| **Additional Account Bank** | Any additional account bank appointed under a Bank Account Agreement or any person with whom the LLP opens a bank account which includes a GIC Account, a Transaction Account, the Collateralised GIC Account or a custody account for the purposes of holding collateral provided pursuant to a Covered Bond Swap Agreement, an Interest Rate Swap Agreement or the Collateral Agreement; |
| **Additional Account Bank Required Amendment** | The meaning given in "*Risk Factors*" on page 33. |
| **Additional Loan Advance** | A further drawing (including, but not limited to, Further Advances, Re-draws and Further Draws) in respect of Loans sold by the Seller to the LLP; |
| **Additional Stand-by Account Bank** | Any bank other than Citibank N.A., London Branch at which any Stand-by Account is opened; |
| **Additional Stand-by GIC Provider** | Any bank other than Citibank N.A., London Branch at which any Stand-by GIC Account is opened; |
| **Adjusted Aggregate Loan Amount** | The meaning given in *"Summary of the Principal Documents"* on page 222; |

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| **Adjusted Required Redemption Amount** | The Sterling Equivalent of the Required Redemption Amount, plus or minus the Sterling Equivalent of any swap termination amounts payable under the Covered Bond Swap Agreement to or by the LLP in respect of the relevant Series of Covered Bonds less (where applicable) (i) amounts standing to the credit of the Pre-Maturity Liquidity Ledger that are not otherwise required to provide liquidity for any Series of Hard Bullet Covered Bonds which mature prior to or on the same date as the relevant Series of Hard Bullet Covered Bonds or (ii) amounts standing to the credit of the GIC Account and the Sterling Equivalent of the principal balance of any Authorised Investments (excluding all amounts to be applied on the next following LLP Payment Date to repay higher ranking amounts in the Guarantee Priority of Payments and those amounts that are required to repay any Series of Covered Bonds which mature prior to or on the same date as the relevant Series of Covered Bonds) plus or minus any swap termination amounts payable to or by the LLP under the Interest Rate Swap Agreement; |
| **Adjusted True Balance** | The meaning given in *"Summary of Principal Documents"* on page 222; |
| **Agency Agreement** | The agency agreement dated the Initial Programme Date and further amended and restated on or about 25 June 2007, 6 January 2011, 7 January 2011, 28 June 2012, 17 July 2013 and 29 July 2016 (as further amended and/or supplemented and/or restated from time to time) and made between the Issuer, the LLP, the Bond Trustee, the Principal Paying Agent and the other Paying Agents, the Exchange Agent, the Registrar and the Transfer Agents; |
| **Agent** | Each of the Paying Agents, the Registrar, the Exchange Agent and the Transfer Agent; |
| **Amortisation Test** | The test as to whether the Amortisation Test Aggregate Loan Amount is at least equal to the Sterling Equivalent of the aggregate Principal Amount Outstanding of the Covered Bonds as calculated on the relevant Calculation Date; |
| **Amortisation Test Aggregate Loan Amount** | The meaning given in *"Summary of the Principal Documents"* on page 225; |
| **Amortisation Test True Balance** | The meaning given in *"Summary of the Principal Documents"* on page 226; |
| **Amortised Face Amount** | The meaning given in *"Terms and Conditions of Covered Bonds"* on page 123; |
| **Arranger** | Barclays Bank PLC, acting through its investment bank; |
| **Arrears Adjusted True Balance** | The meaning given in *"Summary of the Principal Documents"* on page 222; |
| **Arrears of Interest** | As at any date in respect of any Loan, interest (other than Capitalised Interest or Accrued Interest) on that Loan which is currently due and payable and unpaid on that date; |
| **Asset Coverage Test** | The test as to whether the Adjusted Aggregate Loan Amount is at least equal to the Sterling Equivalent of the aggregate Principal Amount Outstanding of the Covered |

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| | Bonds as calculated on the relevant Calculation Date; |
| **Asset Coverage Test Breach Notice** | The notice required to be served by the Bond Trustee if the Asset Coverage Test has not been met on two consecutive Calculation Dates; |
| **Asset Monitor** | A reputable institution appointed as such under the Asset Monitor Agreement; |
| **Asset Monitor Agreement** | The asset monitor agreement entered into on the Initial Programme Date (as amended and restated on 3 July 2009 and 17 July 2013) between the Asset Monitor, the LLP, the Cash Manager, the Issuer, the Bond Trustee and the Security Trustee; |
| **Asset Monitor Report** | The results of the tests conducted by the Asset Monitor in accordance with the Asset Monitor Agreement to be delivered to the Cash Manager, the LLP, the Issuer, the Bond Trustee and the Security Trustee; |
| **Asset Percentage** | The meaning given in *"Summary of the Principal Documents"* on page 224; |
| **Asset Pool** | All assets of the LLP from time to time including but not limited to the Portfolio, any Substitution Assets, any Authorised Investments, the rights of the LLP in the Transaction Documents, the LLP Accounts and all amounts standing to the credit thereto and any other assets referred to in Regulation 3(1) (Asset Pool) of the RCB Regulations, provided that all such assets are recorded as comprising the asset pool under the RCB Regulations; |
| **Authorised Investments** | (a) Sterling gilt edged securities; and<br>(b) Sterling demand or time deposits,<br>provided that in all cases such investments have a remaining maturity date of 30 days or less and mature on or before the next following LLP Payment Date and, in the case of Sterling demand or time deposits, the short term unsecured, unguaranteed and unsubordinated debt obligations of the issuing or guaranteeing entity or the entity with which the demand or time deposits are made (being an authorised person under FSMA 2000) are rated at least A/F1 by Fitch, A-1 by S&P and P-1 by Moody's or their equivalents by three other internationally recognised rating agencies, and provided further that such Authorised Investments comply with the requirements of Regulation 2(1)(a) of the RCB Regulations; |
| **Authorised Underpayment** | A payment made by a Borrower in an amount less than the Monthly Payment then due on the Loan being a sum not exceeding the aggregate of any previous Overpayments; |
| **Available Mortgage Collateral Amount** | An amount equal to the amount by which the Adjusted Aggregate Loan Amount determined on the basis that item V of the definition of Adjusted Aggregate Loan Amount was excluded exceeds the Sterling Equivalent of the aggregate Principal Amount Outstanding of the Covered Bonds as calculated on the next Calculation Date; |
| **Available Principal Receipts** | On a relevant Calculation Date, an amount equal to the aggregate of (without double counting):<br>(a) the amount of Principal Receipts received during the immediately preceding Calculation Period and credited to the Principal Ledger on any GIC Account or the Collateralised GIC Account, as applicable (but, for the avoidance of |

doubt, excluding any Principal Receipts received in the Calculation Period beginning in the month in which the relevant Calculation Date falls);

(b) any other amount standing to the credit of the Principal Ledger including (i) the proceeds of any Term Advance (where such proceeds have not been applied (x) to acquire New Portfolios or invest in Substitution Assets or (y) pursuant to clause 4.1 of the Intercompany Loan Agreement), (ii) any Cash Capital Contributions received from a Member (to the extent not applied pursuant to clause 15.5 of the LLP Deed) and (iii) the proceeds from any sale of Selected Loans pursuant to the terms of the LLP Deed or the Mortgage Sale Agreement but excluding any amount of principal received under the Covered Bond Swap Agreements;

(c) following repayment of any Hard Bullet Covered Bonds by the Issuer and the LLP on the Final Maturity Date thereof, any amounts standing to the credit of the Pre-Maturity Liquidity Ledger in respect of such Series of Hard Bullet Covered Bonds (except where the LLP has elected to or is required to retain such amounts on the Pre-Maturity Liquidity Ledger); and

(d) any amount transferred to the Principal Ledger from the Supplemental Liquidity Reserve Ledger pursuant to schedule 2 of the Cash Management Agreement;

provided that (i) principal amounts which cannot be withdrawn from the Collateralised GIC Account (including, without limitation, in the event of a moratorium arising upon the insolvency, building society insolvency, administration or building society special administration of Nationwide or Nationwide being unable to pay these amounts) shall cease to constitute Available Principal Receipts; (ii) any amounts recovered in respect of such principal amounts from realisation of the related Custody Collateral shall constitute Available Principal Receipts, save to the extent that any Excess Collateral shall be paid to the GIC Provider and shall not constitute Available Principal Receipts; and (iii) any amounts (other than Swap Collateral) subsequently withdrawn from the Collateralised GIC Account will not constitute Available Principal Receipts but will instead constitute Available Revenue Receipts. For the avoidance of doubt, Swap Collateral shall be excluded from the calculation of and shall not constitute Available Principal Receipts;

**Available Revenue Receipts**

On a relevant Calculation Date, an amount equal to the aggregate of:

(a) the amount of Revenue Receipts received during the previous Calculation Period and credited to the Revenue Ledger on any GIC Account or the Collateralised GIC Account, as applicable;

(b) other net income of the LLP including all amounts of interest received on the LLP Accounts (except for the Covered Bond Swap Collateral Accounts, the Stand-by Covered Bond Swap Collateral Accounts, the Interest Rate Swap Collateral Accounts, the Stand-by Interest Rate Swap Collateral Accounts and any GIC Collateral Custody Account), the Substitution Assets and Authorised Investments (other than Authorised Investments made from amounts standing to the credit of any Covered Bond Swap Collateral Account, any Interest Rate Swap Collateral Account and any GIC Collateral Custody Account) in the previous Calculation Period but excluding amounts received by the LLP under the Interest Rate Swap Agreement and in respect

of interest received by the LLP under each Covered Bond Swap Agreement and excluding any Swap Collateral;

(c) prior to the service of a Notice to Pay, amounts standing to the credit of the Reserve Fund in excess of the Reserve Fund Required Amount;

(d) any other Revenue Receipts not referred to in paragraphs (a) to (c) (inclusive) above received during the previous Calculation Period and standing to the credit of the Revenue Ledger on any GIC Account or the Collateralised GIC Account, as applicable;

(e) following the service on the LLP of a Notice to Pay, amounts standing to the credit of the Reserve Fund; and

(f) any amounts subsequently recovered in respect of amounts credited to the Collateralised GIC Account which were previously not capable of being withdrawn and ceased being Available Principal Receipts or Available Revenue Receipts,

provided that revenue amounts and amounts of interest accrued in respect of amounts which cannot be withdrawn from the Collateralised GIC Account (including, without limitation, in the event of a moratorium arising upon the insolvency, building society insolvency, administration or building society special administration of Nationwide or Nationwide being unable to pay these amounts) shall cease to constitute Available Revenue Receipts; provided further, that any amounts subsequently recovered in respect of such revenue amounts and amounts of interest from realisation of the related Custody Collateral shall constitute Available Revenue Receipts, save to the extent that any Excess Collateral shall be paid to the GIC Provider and shall not constitute Available Revenue Receipts. For the avoidance of doubt, Swap Collateral shall be excluded from the calculation of and shall not constitute Available Revenue Receipts;

*less*

(g) Third Party Amounts, which shall be paid on receipt in cleared funds to the Seller;

**Back-Up Cash Management Agreement** Any back-up cash management agreement entered into by the Cash Manager (with the assistance of the Back-Up Cash Manager Facilitator) pursuant to the terms of the Cash Management Agreement (as the same may be amended, restated, supplemented, replaced or novated from time to time);

**Back-Up Cash Manager** The person appointed to undertake the back-up cash management services for the LLP pursuant to the Back-Up Cash Management Agreement;

**Back-Up Cash Manager Event** The meaning given in "Summary of the Principal Documents" on page 234;

**Back-Up Cash Manager Facilitator** Wilmington Trust SP Services (London) Limited and any successor or replacement entity;

**Back-Up Servicer** The person appointed to undertake the back-up servicing obligations in relation to the Portfolio pursuant to the Back-Up Servicing Agreement;

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| **Back-Up Servicer Event** | The meaning given in "Summary of the Principal Documents" on page 216; |
| **Back-Up Servicer Facilitator** | Wilmington Trust SP Services (London) Limited and any successor or replacement entity; |
| **Back-Up Servicing Agreement** | Any back-up servicing agreement entered into by the Servicer (with the assistance of the Back-Up Servicer Facilitator) pursuant to the terms of clause 22.1 of the Servicing Agreement (as the same may be amended, restated, supplemented, replaced or novated from time to time) |
| **Bank Account Agreement** | The bank account agreement entered into on the Initial Programme Date (as the same may be amended, restated, supplemented, replaced or novated from time to time) between the LLP, Nationwide in its capacity as an Account Bank, the Cash Manager and the Security Trustee and/or, as the context may require, any other bank account agreement entered into between an Additional Account Bank, the LLP, the Cash Manager and the Security Trustee; |
| **Basel Committee** | Basel Committee on Banking Supervision; |
| **Basis Covered Bond Swap** | Each basis swap transaction entered into between the LLP and a Covered Bond Swap Provider; |
| **Bearer Covered Bonds** | Bearer Definitive Covered Bonds or Bearer Global Covered Bonds, as the case may be; |
| **Bearer Definitive Covered Bonds** | A Bearer Covered Bond in definitive form issued or, as the case may require, to be issued by the Issuer in accordance with the provisions of the Programme Agreement or any other agreement between the Issuer and the relevant Dealer(s), the Agency Agreement and the Trust Deed in exchange for either a Temporary Global Covered Bond or part thereof or a Permanent Global Covered Bond or part thereof (all as indicated in the applicable Final Terms), such Bearer Covered Bond in definitive form being in the form or substantially in the form set out in Part 3 of Schedule 2 to the Trust Deed with such modifications (if any) as may be agreed between the Issuer, the Principal Paying Agent, the Bond Trustee and the relevant Dealer or Lead Manager (in the case of syndicated Issues) and having the Conditions endorsed thereon or, if permitted by the relevant Stock Exchange, incorporating the Conditions by reference as indicated in the applicable Final Terms and having the relevant information supplementing, replacing or modifying the Conditions appearing in the applicable Final Terms endorsed thereon or attached thereto and (except in the case of a Zero Coupon Covered Bonds in bearer form) having Coupons and, where appropriate, Talons attached thereto on issue; |
| **Bearer Global Covered Bond** | The meaning given on page 87; |
| **Beneficial Owner** | Each actual purchaser of each DTC Covered Bond; |
| **BMR** | The Seller's base mortgage rate which is capped at 2% above the Bank of England base rate; |

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| **BMR Loans** | Loans that are subject to the Seller's BMR; |
| **Bond Trustee** | Citicorp Trustee Company Limited, in its capacity as bond trustee under the Trust Deed together with any successor bond trustee appointed from time to time; |
| **Borrower** | In relation to a Loan, the individual or individuals specified as such in the relevant Mortgage together with the individual or individuals (if any) from time to time assuming an obligation to repay such Loan or any part of it; |
| **BRRD** | The Bank Recovery and Resolution Directive, as amended; |
| **Buildings Insurance Policies** | All buildings insurance policies relating to Properties taken out (a) in the name of the relevant Borrower (and, in the case of Seller Arranged Policies, the Seller) and (b) in the name of the landlord in the case of leasehold Properties where the relevant landlord is responsible for insuring the Property; |
| **Buildings Societies Act** | Buildings Societies Act 1986, as amended; |
| **Business Day** | The meaning given in *"Terms and Conditions of the Covered Bonds"* on page 110; |
| **Butterfill Act** | Building Societies (Funding) and Mutual Societies (Transfers) Act 2007, as amended; |
| **Calculation Agent** | In relation to all or any Series of the Covered Bonds, the person initially appointed as calculation agent in relation to such Covered Bonds by the Issuer and the LLP pursuant to the Agency Agreement or, if applicable, any successor or separately appointed calculation agent in relation to all or any Series of the Covered Bonds; |
| **Calculation Date** | The 12th day of each month (or, if that day is not a Business Day, then the immediately preceding Business Day); |
| **Calculation Period** | The period from, and including, the first day of each month to, and including, the last day of each month; |
| **Capital Account Ledger** | The ledger maintained by the Cash Manager on behalf of the LLP in respect of each Member to record the balance of each Member's Capital Contributions from time to time; |
| **Capital Balance** | For a Loan at any date, the principal balance of that Loan to which the Servicer applies the relevant interest rate at which interest on that Loan accrues; |
| **Capital Contribution** | In relation to each Member, the aggregate of the capital contributed by that Member to the LLP from time to time by way of Cash Capital Contributions and Capital Contributions in Kind as determined on each Calculation Date in accordance with the formula set out in the LLP Deed; |
| **Capital Contribution Balance** | The balance of each Member's Capital Contributions as recorded from time to time in the relevant Member's Capital Account Ledger; |
| **Capital Contribution in** | A contribution of Loans and their Related Security to the LLP in an amount equal to (a) the aggregate of the True Balance of those Loans as at the relevant Transfer Date |

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| **Kind** | minus (b) any cash payment paid by the LLP for the Loans and their Related Security on that Transfer Date; |
| **Capital Distribution** | A repayment of a Member's Capital Contribution in accordance with the terms of the LLP Deed (and excluding, for the avoidance of doubt, any Deferred Consideration); |
| **Capitalised Arrears** | For any Loan at any date, interest or other amounts which are overdue in respect of that Loan and which as at that date have been added to the Capital Balance of the Loan in accordance with the Mortgage Conditions or otherwise by arrangement with the relevant Borrower; |
| **Capitalised Expenses** | In relation to a Loan, the amount of any expense, charge, fee, premium or payment (excluding, however, any Arrears of Interest) capitalised and added to the Capital Balance of that Loan in accordance with the relevant Mortgage Conditions; |
| **Capitalised Interest** | For any Loan at any date, interest which is overdue in respect of that Loan and which as at that date has been added to the Capital Balance of that Loan in accordance with the Mortgage Conditions or otherwise by arrangement with the relevant Borrower (excluding for the avoidance of doubt any Arrears of Interest which have not been so capitalised on that date); |
| **Cash Capital Contributions** | A Capital Contribution made in cash; |
| **Cash Management Agreement** | The cash management agreement dated the Initial Programme Date as amended on 27 November 2006, 30 November 2007, 30 April 2008, 3 July 2009 and 18 December 2009 (as amended and/or supplemented and/or restated from time to time) entered into between the LLP, Nationwide in its capacity as the Cash Manager and the Security Trustee; |
| **Cash Manager** | Nationwide, in its capacity as cash manager under the Cash Management Agreement together with any successor cash manager appointed from time to time; |
| **Cash Re-draws** | Cash re-draws to which a Borrower is entitled under a Flexible Loan as a result of Overpayments that the Borrower has made on that Flexible Loan or otherwise; |
| **CCA** | Consumer Credit Act 1974, as amended; |
| **CCA 2006** | Consumer Credit Act 2006, as amended; |
| **Certificate of Title** | A solicitor's, licensed conveyancer's or (in Scotland) qualified conveyancer's report or certificate of title obtained by or on behalf of the Seller in respect of each Property substantially in the form of the pro-forma set out in the Standard Documentation; |
| **Charged Property** | The property charged by the LLP pursuant to Clauses 3.1 to 3.9 (inclusive) (Security and Declaration of Trust) of the Deed of Charge; |
| **Clearing Systems** | DTC, Euroclear and/or Clearstream, Luxembourg; |
| **Clearstream, Luxembourg** | Clearstream Banking, *société anonyme*; |
| **CML** | Council of Mortgage Lenders; |

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| **CML Code** | The Mortgage Code issued by the CML; |
| **Collateral Agreement** | The collateral agreement entered into by the LLP and the GIC Provider in relation to the GIC Provider's obligations with respect to the Collateralised GIC Account, substantially in the form set forth in schedule 4 to the Cash Management Agreement (as the same may be amended, restated, supplemented, replaced or novated from time to time); |
| **Collateral Available Amounts** | On termination of the Collateral Agreement, the amount of Custody Collateral which under the terms of the Collateral Agreement and following termination thereof may be applied at that time by way of set-off in satisfaction of any of the GIC Provider's obligations to the LLP with respect to the Collateralised GIC Account under or in connection with the Guaranteed Investment Contract first entered into on the Initial Programme Date, to the extent such obligations remain outstanding; |
| **Collateralised GIC Account** | An account in the name of the LLP held at Nationwide in its capacity as an Account Bank and maintained subject to the terms of the Guaranteed Investment Contract first entered into on the Initial Programme Date, the Bank Account Agreement and the Deed of Charge and/or such additional or replacement account as may for the time being be in place with the prior consent of the Security Trustee; |
| **Common Depositary** | The common depositary for Euroclear and Clearstream, Luxembourg; |
| **Common Safekeeper** | Either of Euroclear and/or Clearstream, Luxembourg in its capacity as common safekeeper or a person nominated by either of Euroclear and/or Clearstream, Luxembourg to perform the role of common safekeeper; |
| **Conditions** | Terms and conditions of the Covered Bonds (with the exception of the N Covered Bond Conditions); |
| **Corporate Services Agreement** | The corporate services agreement dated the Initial Programme Date (as amended and/or supplemented and/or restated from time to time) entered into by each of the Liquidation Member and Holdings, with, *inter alios,* the relevant Corporate Services Provider and the LLP; |
| **Corporate Services Provider** | Wilmington Trust SP Services (London) Limited, a company incorporated under the laws of England and Wales in its capacity as corporate services provider to Holdings and to the Liquidation Member under a Corporate Services Agreement, together with any successor corporate services provider appointed from time to time; |
| **Couponholders** | The holders of the Coupons (which expression shall, unless the context otherwise requires, include the holders of the Talons); |
| **Coupons** | The meaning given in *"Terms and Conditions of the Covered Bonds"* on page 101; |
| **Covered Bond** | Each covered bond issued or to be issued pursuant to the Programme Agreement and which is or is to be constituted under the Trust Deed, which covered bond may be represented by a Global Covered Bond or any Definitive Covered Bond and includes any replacements or a Covered Bond issued pursuant to Condition 10 (Replacement of Covered Bonds, Coupons and Talons) (and which for the avoidance of doubt, includes the N Covered Bonds); |

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| **Covered Bondholders** | Means the several persons who are for the time being holders of outstanding Covered Bonds (being, in the case of Bearer Covered Bonds, the bearers thereof and, in the case of Registered Covered Bonds, the several persons whose names are entered in the register of holders of the Registered Covered Bonds as the holders thereof) save that, in respect of the Covered Bonds of any Series, for so long as such Covered Bonds or any part thereof are represented by a Global Covered Bond deposited with a common depositary or common safekeeper, as the case may be, for Euroclear and Clearstream, Luxembourg, or so long as Euroclear or Clearstream, Luxembourg, DTC or its nominee is registered holder of a Registered Global Covered Bond each person who is for the time being shown in the records of Euroclear or Clearstream, Luxembourg (other than Clearstream, Luxembourg, if Clearstream, Luxembourg shall be an accountholder of Euroclear and Euroclear, if Euroclear shall be an accountholder of Clearstream, Luxembourg) or, as the case maybe, DTC or its nominee or as the case may be, the common safekeeper, as the holder of a particular principal amount of the Covered Bonds of such Series shall be deemed to be the holder of such principal amount of such Covered Bonds (and the holder of the relevant Global Covered Bond shall be deemed not to be the holder) for all purposes of the trust presents other than with respect to the payment of principal or interest on such principal amount of such Covered Bonds and, in the case of DTC or its nominee, voting, giving consents and making requests pursuant to the trust presents, the rights to which shall be vested, as against the Issuer, the LLP and the Bond Trustee, solely in such common depositary or as the case may be, the common safekeeper or, as the case may be, DTC or its nominee and for which purpose such common depositary or as the case may be, the common safekeeper or, as the case may be, DTC or its nominee shall be deemed to be the holder of such principal amount of such Covered Bonds in accordance with and subject to its terms and the provisions of the trust presents and the expression holder of Covered Bonds and related expressions shall be construed accordingly; |
| **Covered Bond Guarantee** | An unconditional and irrevocable guarantee by the LLP in the Trust Deed for the payment of Guaranteed Amounts in respect of the Covered Bonds when the same shall become Due for Payment; |
| **Covered Bond Swap** | Each Basis Covered Bond Swap and Interest Rate Covered Bond Swap; |
| **Covered Bond Swap Agreement** | Each agreement between the LLP, a Covered Bond Swap Provider and the Security Trustee governing Covered Bond Swaps entered into with such Covered Bond Swap Provider in the form of an ISDA Master Agreement, including a schedule, confirmations and any credit support annex in relation to each such Covered Bond Swap; |
| **Covered Bond Swap Collateral Account** | (a) Each custody or bank account of the LLP to be opened and maintained by an Account Bank or (b) the Collateralised GIC Account (but only to the extent of any Swap Collateral posted thereto and recorded on the applicable Designated Covered Bond Swap Collateral Ledger), in each case for the purposes of holding Swap Collateral provided by a Covered Bond Swap Provider pursuant to and in accordance with the terms of the relevant Covered Bond Swap Agreement; |
| **Covered Bond Swap Collateral Account Ledger** | The ledger maintained by the Cash Manager on behalf of the LLP in respect of each Covered Bond Swap Provider to record the amount of Swap Collateral provided from time to time under the applicable Covered Bond Swap Agreement; |

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| **Covered Bond Swap Early Termination Event** | The meaning given in *"Summary of the Principal Documents"* on page 240; |
| **Covered Bond Swap Provider** | Each provider of a Covered Bond Swap under a Covered Bond Swap Agreement; |
| **Covered Bond Swap Rate** | In relation to a Covered Bond or Series of Covered Bonds, the exchange rate specified in the Covered Bond Swap Agreement relating to such Covered Bond or Series of Covered Bonds or, if the Covered Bond Swap Agreement has terminated, the applicable spot rate; |
| **CPUTR** | Consumer Protection from Unfair Trading Regulations 2008; |
| **Custodian** | Any custodian with whom the relevant Registered Global Covered Bonds have been deposited; |
| **Custody Collateral** | Any asset (including, without limitation, cash and/or securities) which is paid or transferred by the GIC Provider to the GIC Collateral Custody Account pursuant to the Collateral Agreement to secure the performance by such GIC Provider of its obligations with respect to the Collateralised GIC Account under or in connection with the Guaranteed Investment Contract first entered into on the Initial Programme Date together with income or distributions received in respect of such asset and any equivalent asset into which such asset is transformed; |
| **Day Count Fraction** | In the case of a Fixed Rate Covered Bond, the meaning given in Condition 4.1 (Interest on Fixed Rate Covered Bonds) in *"Terms and Conditions of the Covered Bonds"* on page 108 and, in the case of a Floating Rate Covered Bond, the meaning given in Condition 4.2 (Interest on Floating Rate Covered Bonds) in *"Terms and Conditions of the Covered Bonds"* on page 112; |
| **Dealer** | Each of Barclays Bank PLC, Citigroup Global Markets Limited, Deutsche Bank Aktiengesellschaft, HSBC Bank plc, J.P. Morgan Securities plc, Morgan Stanley & Co. International plc, The Royal Bank of Scotland plc and UBS Limited and any other dealers appointed from time to time in accordance with the Programme Agreement, which appointment may be for a specific issue or on an ongoing basis. References in this Base Prospectus to the relevant Dealer(s) shall, in the case of an issue of Covered Bonds being (or intended to be) subscribed for by more than one Dealer, be to all Dealers agreeing to subscribe for such Covered Bonds; |
| **Deed of Charge** | The deed of charge dated the Initial Programme Date and amended and restated on 30 November 2007, 30 April 2008, 19 June 2008 and 17 July 2013 (as amended and/or supplemented and/or restated from time to time) and made between the LLP, the Bond Trustee, the Security Trustee and certain other Secured Creditors; |
| **Deed of Consent** | A deed whereby a person in or intended to be in occupation of a Property agrees with the Seller to postpone his or her interest (if any) in the Property so that it ranks after the interest created in the relevant Mortgage; |
| **Deed of Postponement** | A deed or agreement whereby a mortgagee of or the heritable creditor in relation to a Property agrees with the Seller to postpone its mortgage or standard security (as appropriate) over the Property so that the sums secured by it will rank for repayment after the sums secured by the relevant Mortgage; |

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| **Defaulted Loan** | Any Loan in the Portfolio which is more than three months in arrears; |
| **Defaulted Loans Notice** | A notice from the Cash Manager to the Seller identifying any Defaulted Loan; |
| **Deferred Consideration** | The consideration payable to a Seller in respect of the Loans sold to the LLP from time to time, which is payable after making payments of a higher order of priority as set out in the relevant Priorities of Payments; |
| **Definitive Covered Bond** | A Bearer Definitive Covered Bond and/or, as the context may require, a Registered Definitive Covered Bond; |
| **Definitive IAI Registered Covered Bonds** | The meaning given in *"Form of the Covered Bonds"* on page 89; |
| **Definitive Regulation S Covered Bond** | A Registered Covered Bond in definitive form sold to non-US persons outside the United States in reliance on Regulation S; |
| **Definitive Rule 144A Covered Bond** | A Registered Covered Bond in definitive form sold to QIBs pursuant to Rule 144A; |
| **Deposit Non-Reserved Amounts** | All amounts received by the LLP other than the Reserve Fund and amounts standing to the credit of either the Pre-Maturity Liquidity Ledger or the Supplemental Liquidity Reserve Ledger; |
| **Designated Account** | The meaning given in Condition 5.4 (Payments in respect of Registered Covered Bonds) in *"Terms and Conditions of the Covered Bonds"* on page 116; |
| **Designated Bank** | The meaning given in Condition 5.4 (Payments in respect of Registered Covered Bonds) in *"Terms and Conditions of the Covered Bonds"* on page 116; |
| **Designated Covered Bond Swap Collateral Ledger** | Each ledger maintained by the Cash Manager on which it shall record any collateral provided by a Covered Bond Swap Provider which is deposited in the Collateralised GIC Account and identified as a Designated Collateral Amount; |
| **Designated Collateral Amount** | The meaning given in *"Summary of the Principal Documents"* on page 242; |
| **Designated Collateral Amount Ledger** | The ledger maintained by the Cash Manager on which it shall record each credit and debit to the Collateralised GIC Account which is designated as a Designated Collateral Amount; |
| **Designated Maturity** | The meaning given in the ISDA Definitions; |

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| **Designated Member** | Each Member appointed and registered as such from time to time having those duties and obligations set out in sections 8 and 9 of the LLPA 2000 being, as at the date of this Base Prospectus, Nationwide and the Liquidation Member; |
| **Designated Collateral Amount Ledger** | The ledger maintained by the Cash Manager on which it shall record each credit and debit to the Collateralised GIC Account which is designated as a Designated Collateral Amount; |
| **Designated Interest Rate Swap Collateral Ledger** | Each ledger maintained by the Cash Manager on which it shall record any collateral provided by an Interest Rate Swap Provider which is deposited in the Collateralised GIC Account and identified as a Designated Collateral Amount; |
| **Determination Date** | The meaning given in the applicable Final Terms; |
| **Determination Period** | The meaning given in Condition 4.1 (Interest on Fixed Rate Covered Bonds) in *"Terms and Conditions of the Covered Bonds"* on page 108; |
| **Direct Participants** | The meaning given in *"Book-Entry Clearance Systems"* on page 279; |
| **Directors** | The Board of Directors for the time being of the Issuer; |
| **Distribution Compliance Period** | The period that ends 40 days after the completion of the distribution of each Tranche of Covered Bonds, as certified by the relevant Dealer (in the case of a non-syndicated issue) or the relevant Lead Manager (in the case of a syndicated issue); |
| **DTC** | The Depository Trust Company; |
| **DTC Covered Bonds** | Covered Bonds accepted into DTC's book-entry settlement system; |
| **Due for Payment** | The requirements by the LLP to pay any Guaranteed Amounts following the delivery of a Notice to Pay on the LLP,<br><br>(a) prior to the occurrence of an LLP Event of Default, on the later of:<br><br>(i) the date on which the Scheduled Payment Date in respect of such Guaranteed Amounts is reached, or, if later, the day which is two Business Days following service of a Notice to Pay on the LLP in respect of such Guaranteed Amounts or if the applicable Final Terms specified that an Extended Due for Payment Date is applicable to the relevant Series of Covered Bonds, the Interest Payment Date that would have applied if the Final Maturity Date of such Series of Covered Bonds had been the Extended Due for Payment Date (the **Original Due for Payment Date**); and<br><br>(ii) in relation to any Guaranteed Amounts in respect of the Final Redemption Amount payable on the Final Maturity Date for a Series of Covered Bonds only, the Extended Due for Payment Date, but only (A) if in respect of the relevant Series of Covered Bonds the Covered Bond Guarantee is subject to an Extended Due for Payment Date pursuant to the terms of the applicable Final Terms and (B) to the extent that the LLP having received a Notice to Pay no later than the date falling one Business Day prior to the Extension |

Determination Date does not pay Guaranteed Amounts equal to the Final Redemption Amount in respect of such Series of Covered Bonds by the Extension Determination Date, as the LLP has insufficient moneys available under the Guarantee Priority of Payments to pay such Guaranteed Amounts in full on the earlier of (1) the date which falls two Business Days after service of such Notice to pay on the LLP or, if later, the Final Maturity Date (or, in each case, after the expiry of the grace period set out in Condition 9.2(a)) under the terms of the Covered Bond Guarantee) or (2) the Extension Determination Date,

or, if, in either case, such day is not a Business Day, the next following Business Day. For the avoidance of doubt, Due for Payment does not refer to any earlier date upon which payment of any Guaranteed Amounts may become due under the guaranteed obligations, by reason of prepayment, acceleration of maturity, mandatory or optional redemption or otherwise; or

(b) following the occurrence of an LLP Event of Default, the date on which an LLP Acceleration Notice is served on the Issuer and the LLP;

**Earliest Maturing Covered Bonds** At any time the Series of the Covered Bonds (other than any Series which is fully collateralised by amounts standing to the credit of any GIC Account or the Collateralised GIC Account, as applicable) that has or have the earliest Final Maturity Date as specified in the applicable Final Terms (ignoring any acceleration of amounts due under the Covered Bonds prior to the occurrence of an LLP Event of Default);

**Early Redemption Amount** The meaning given in the relevant Final Terms;

**Eligibility Criteria** The meaning given on page 207;

**Eligible Custody Arrangement** A custody arrangement in a form satisfactory to the Cash Manager which (i) is entered into by, amongst others, the LLP and the Security Trustee, with an Eligible GIC Custodian, (ii) requires such Eligible GIC Custodian to hold the relevant Custody Collateral subject to and in accordance with the terms of the Collateral Agreement, (iii) requires such Eligible GIC Custodian to liquidate the relevant Custody Collateral no earlier than 5 Business Days (unless no loss would result from such sale), and no later than 30 calendar days, following the occurrence of an Insolvency Event with respect to Nationwide through a best-efforts sale process, (iv) provides that the Custody Collateral will be ringfenced from the other collateral held by the Custodian, (v) provides that the LLP has free access to the Custody Collateral held in the related GIC Collateral Custody Account to the extent amounts standing to the credit of the Collateralised GIC Account are unavailable, (vi) requires the receipt of a satisfactory legal opinion from a law firm of international repute that such Eligible Custody Arrangement is a legal valid binding obligation of the custodian and as to such other matters as the LLP and the Security Trustee may reasonably require, and (vii) following prior notice of such arrangement, no Rating Agency has indicated such arrangement would result in the downgrade, withdrawal or qualification of the then current ratings of the Covered Bonds;

**Eligible GIC Custodian** A third party custodian that is not the Cash Manager or Nationwide

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| **EMIR** | Regulation (EU) No 648/2012 of the European Parliament and of the Council on OTC derivatives, central counterparties and trade repositories dated 4 July 2012; |
| **EMIR Amendment** | Any modification to the Transaction Documents and/or the Conditions of the Covered Bonds made pursuant to the terms of the Trust Deed and the Deed of Charge to enable the Issuer to comply with any requirements which apply to it under EMIR; |
| **English Loans** | Loans secured by a Mortgage over a Property located in England or Wales; |
| **English Mortgage** | A Mortgage over a Property located in England or Wales; |
| **EU** | European Union; |
| **EURIBOR** | Euro-zone inter-bank offered rate; |
| **Euroclear** | Euroclear Bank S.A./N.V.; |
| **Excess Collateral** | In respect of a Collateral Agreement, (a) any Return Amount (as defined in the Collateral Agreement), (b) any Custody Collateral (or equivalent Custody Collateral) not included in (a) above that Nationwide in its capacity as GIC Provider is entitled to have transferred to it in accordance with the terms of the Collateral Agreement and (c) any Custody Collateral which is in excess of any termination amount due but unpaid by Nationwide (if any) on termination of such Collateral Agreement (subject to any set-off provisions contained therein); |
| **Excess Hedge Collateral** | In respect of a Swap Provider, (a) any Return Amount (as defined in the applicable Swap Agreement), (b) any distributions or interest on Swap Collateral provided by that Swap Provider, (c) any amount of Swap Collateral (or equivalent Swap Collateral) not included in the preceding clauses (a) and (b) that the Swap Provider is entitled to have transferred to it in accordance with the terms of the applicable Swap Agreement and (d) any Swap Collateral in respect of that Swap Provider in excess of any termination amount due but unpaid by such Swap Provider (if any) on termination of the transactions under the applicable Swap Agreement; |
| **Excess Proceeds** | Moneys received (following the occurrence of an Issuer Event of Default and delivery of an Issuer Acceleration Notice) by the Bond Trustee from the Issuer or any administrator, administrative receiver, receiver, liquidator, trustee in sequestration or other similar official appointed in relation to the Issuer; |
| **Exchange Act** | US Securities Exchange Act of 1934, as amended; |
| **Exchange Agent** | Citibank N.A., London Branch in its capacity as exchange agent (which expression shall include any successor exchange agent); |
| **Exchange Date** | On or after the date which is 40 days after a Temporary Global Covered Bond is issued; |
| **Exchange Event** | In the case of Bearer Global Covered Bonds, the meaning given in *"Form of the Covered Bonds"* on page 88 and, in the case of Registered Covered Bonds, the meaning given in *"Form of the Covered Bonds"* on page 89; |

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| **Excluded Scheduled Interest Amounts** | The meaning given to it in the definition of Scheduled Interest; |
| **Excluded Scheduled Principal Amounts** | The meaning given to it in the definition of Scheduled Principal; |
| **Excluded Swap Termination Amount** | In relation to a Swap Agreement, an amount equal to the amount of any termination payment due and payable (a) to the relevant Swap Provider as a result of a Swap Provider Default with respect to such Swap Provider or (b) to the relevant Swap Provider following a Swap Provider Downgrade Event with respect to such Swap Provider; |
| **Existing Covered Bonds** | The Covered Bonds of all Series then outstanding; |
| **Extended Due for Payment Date** | In relation to any Series of Covered Bonds, the date, if any, specified as such in the applicable Final Terms to which the payment of all or (as applicable) part of the Final Redemption Amount payable on the Final Maturity Date will be deferred in the event that the Final Redemption Amount is not paid in full on the Extension Determination Date; |
| **Extension Determination Date** | In respect of a Series of Covered Bonds, the date falling two Business Days after the expiry of seven days from (and including) the Final Maturity Date of such Series of Covered Bonds; |
| **Extraordinary Resolution** | A resolution of the holders of the Covered Bonds passed as such under the terms of the Trust Deed; |
| **FATCA** | The meaning given in "Foreign Account Tax Compliance Act" on page 269; |
| **FATCA Withholding** | The meaning given in "Foreign Account Tax Compliance Act" on page 269; |
| **FCA** | Financial Conduct Authority; |
| **Final Maturity Date** | The Interest Payment Date on which each Series of Covered Bonds will be redeemed at their Principal Amount Outstanding in accordance with the Conditions; |
| **Final Redemption Amount** | The meaning given in the relevant Final Terms; |
| **Final Terms** | Final terms which, with respect to Covered Bonds (with the exception of the N Covered Bonds) to be admitted to the Official List and admitted to trading by the London Stock Exchange, will be delivered to the FCA and the London Stock Exchange on or before the date of issue of the applicable Tranche of Covered Bonds; |
| **First Transfer Date** | The date on which the Initial Portfolio was transferred to the LLP pursuant to the Mortgage Sale Agreement; |
| **Fitch** | Fitch Ratings Ltd.; |

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| **Fixed Interest Period** | The meaning given in Condition 4.1 (Interest on Fixed Rate Covered Bonds) in *"Terms and Conditions of the Covered Bonds"* on page 108; |
| **Fixed Rate Covered Bonds** | Covered Bonds paying a fixed rate of interest on such date or dates as may be agreed between the Issuer and the relevant Dealer(s) and on redemption calculated on the basis of such Day Count Fraction as may be agreed between the Issuer and the relevant Dealer(s); |
| **Flexible Advance** | A Loan for unrestricted purposes (which may be CCA regulated) offered to Borrowers with existing Loans (other than a Flexible Advance) from the Seller which is secured on the same Property which secures the Borrower's existing Loan. Some Flexible Advances permit the Borrower to make further draws up to the fixed credit limit extended under the Mortgage Conditions at the inception of the Flexible Advance; |
| **Flexible Loan** | A type of Loan product that typically incorporates features that give the Borrower options (which may be subject to certain conditions) to, among other things, make further drawings on the Loan Account and/or to overpay or underpay interest and principal in a given month and/or take a Payment Holiday; |
| **Flexible Re-draw Capacity** | The meaning given in *"Credit Structure"* on page 225; |
| **Floating Rate** | The meaning given in the ISDA Definitions; |
| **Floating Rate Convention** | The meaning given in *"Terms and Conditions of the Covered Bonds"* on page 109; |
| **Floating Rate Covered Bonds** | Covered Bonds which bear interest at a rate determined:<br>(a) on the same basis as the floating rate under a notional interest rate swap transaction in the relevant Specified Currency governed by an agreement incorporating the ISDA Definitions; or<br>(b) on the basis of a reference rate appearing on the agreed screen page of a commercial quotation service; or<br>(c) on such other basis as may be agreed between the Issuer and the relevant Dealer(s),<br>as set out in the applicable Final Terms; |
| **Floating Rate Option** | The meaning given in the ISDA Definitions; |
| **Following Business Day Convention** | The meaning given in *"Terms and Conditions of the Covered Bonds"* on page 109; |
| **Framework** | Framework issued by the Basel Committee on Banking Supervision under the title "International Convergence of Capital Measurement and Capital Standards: A Revised Framework (Comprehensive Version)"; |

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| **FSA** | Financial Services Authority and any successor thereto, including (as applicable) the FCA and the PRA; |
| **FSCS Limit** | The current applicable limit established by the Financial Services Compensation Scheme; |
| **FSMA 2000** | Financial Services and Markets Act 2000, as amended; |
| **Further Advance** | In relation to a Loan, any advance of further money to the relevant Borrower following the making of the Initial Advance, which is secured by the same Mortgage as the Initial Advance, excluding the amount of any retention in respect of the Initial Advance and excluding any Redraw in respect of any Flexible Loan or Further Draw in respect of any Flexible Advance; |
| **Further Draws** | Additional amounts Borrowers are permitted to draw under Flexible Advances (in aggregate up to the fixed credit limit under the Mortgage Conditions); |
| **GIC Account** | The account or accounts in the name of the LLP held with an Account Bank and maintained subject to the terms of a Guaranteed Investment Contract, the Bank Account Agreement and the Deed of Charge (which, for the avoidance of doubt, does not include the Collateralised GIC Account) or such additional or replacement accounts as may for the time being be in place with the prior consent of the Security Trustee; |
| **GIC Collateral Custody Account** | Each custody or bank account in the name of the LLP to be opened and maintained at an Eligible GIC Custodian for the purpose of holding Custody Collateral pursuant to and in accordance with the terms of the Collateral Agreement |
| **GIC Provider** | Nationwide, in its capacity as GIC provider with respect to a GIC Account and the Collateralised GIC Account under the Guaranteed Investment Contract first entered into on the Initial Programme Date and/or any additional or successor GIC provider appointed from time to time, as the context requires; |
| **Global Covered Bond** | A Bearer Global Covered Bond and/or Registered Global Covered Bond, as the context may require; |
| **Guaranteed Amounts** | Prior to the service of an LLP Acceleration Notice, with respect to any Original Due for Payment Date or, if applicable, any Extended Due for Payment Date, the sum of Scheduled Interest and Scheduled Principal, in each case, payable on that Original Due for Payment Date or, if applicable, any Extended Due for Payment Date, or after service of an LLP Acceleration Notice, an amount equal to the relevant Early Redemption Amount as specified in the Conditions plus all accrued and unpaid interest and all other amounts due and payable in respect of the Covered Bonds, including all Excluded Scheduled Interest Amounts, and Excluded Scheduled Principal Amounts (whenever the same arose) and all amounts payable by the LLP under the Trust Deed; |
| **Guaranteed Investment Contract** or **GIC** | The guaranteed investment contract between the LLP, the GIC Provider, the Security Trustee and the Cash Manager dated the Initial Programme Date (as the same may be amended, restated, supplemented, replaced or novated from time to time) and any further guaranteed investment contract entered into with any other GIC Provider; |
| **Guarantee Priority** | The meaning given in *"Cashflows"* on page 257; |

**of Payments**

**Hard Bullet Covered Bonds** The meaning given in "*Credit Structure – Pre-Maturity Liquidity*" on page 247;

**HMRC** HM Revenue & Customs;

**Holders of the Covered Bonds** The holders for the time being of the Covered Bonds;

**Holdings** Moulton Capital Finance (Holdings) Limited, a special purpose vehicle incorporated in England and Wales as a private limited company (registered no. 5372200);

**IAI Investment Letter** The meaning given in Condition 2.5 (Transfers of interests in Regulation S Global Covered Bonds) in *"Terms and Conditions of the Covered Bonds"* on page 104;

**ICSD** Means Euroclear or Clearstream, Luxembourg, as the case may be;

**Indexed Valuation** At any date in relation to any Loan secured over any Property:

(a) where the Latest Valuation of that Property is equal to or greater than the Nationwide Price Indexed Valuation as at that date, the Nationwide Price Indexed Valuation; or

(b) where the Latest Valuation of that Property is less than Nationwide Price Indexed Valuation as at that date, the Latest Valuation plus 85% of the difference between the Latest Valuation and the Nationwide Price Indexed Valuation;

**Indirect Participants** The meaning given in *Book-Entry Clearance Systems* on page 279;

**Initial Advance** In respect of any Loan, the original principal amount advanced by the Seller to the relevant Borrower;

**Initial Portfolio** The meaning given in *"The Portfolio"* on page 264;

**Initial Programme Date** 30 November 2005;

**Insolvency Act** Insolvency Act 1986, as amended;

**Insolvency Event** In respect of the Seller, the Servicer or the Cash Manager:

(a) an order is made or an effective resolution passed for the winding up of the relevant entity; or

(b) the relevant entity stops or threatens to stop payment to its creditors generally or the relevant entity ceases or threatens to cease to carry on its business or substantially the whole of its business; or

(c) an encumbrancer takes possession or a receiver, administrator, administrative receiver or other similar officer is appointed to the whole or any material part (having an aggregate book value in excess of £40,000,000) of the undertaking, property and assets of the relevant entity or a distress,

diligence or execution is levied in respect of a claim for £40,000,000 or more or enforced upon or sued out against the whole or any material part (having an aggregate book value in excess of £40,000,000) of the chattels or property of the relevant entity and, in the case of any of the foregoing events, is not discharged within 30 days; or

(d) the relevant entity is unable to pay its debts as they fall due;

**Insolvency (Northern Ireland) Order** Insolvency (Northern Ireland) Order 1989, as amended by the Insolvency (Northern Ireland) Order 2005;

**Institutional Accredited Investor or IAI** An institution that is an "accredited investor" (as defined in Rule 501(a)(1), (2), (3) or (7) of Regulation D under the Securities Act);

**Insurance Policies** Each of:

(a) the Properties in Possession Policies; and

(b) Buildings Insurance Policies;

**Intercompany Loan Agreement** The term loan agreement dated the Initial Programme Date as amended and restated on 30 April 2008 (as amended and/or supplemented and/or restated from time to time) between the Issuer, the LLP and the Security Trustee;

**Interest Amount** The amount of interest payable on the Floating Rate Covered Bonds in respect of each Specified Denomination for the relevant Interest Period;

**Interest Payment Date** In relation to any Series of Covered Bonds, the Specified Interest Payment Date or the meaning given in the applicable Final Terms (as the case may be);

**Interest Period** The period from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date;

**Interest Rate Covered Bond Swap** Each interest rate swap transaction entered into between the LLP and a Covered Bond Swap Provider;

**Interest Rate Swaps** Each of the Jumbo Interest Rate Swaps, the Reset Interest Rate Swaps and any other interest rate swap entered into under an Interest Rate Swap Agreement (and Interest Rate Swap means any one of them);

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| **Interest Rate Swap Agreement** | The agreement between the LLP, Nationwide (in its capacity as an Interest Rate Swap Provider) and the Security Trustee dated on or about the Initial Programme Date as amended and restated on 3 April 2009, 18 December 2009 and 1 July 2016 (as the same may be amended, restated, supplemented, replaced or novated from time to time) between the LLP, the Interest Rate Swap Provider and the Security Trustee governing certain Interest Rate Swaps in the form of an ISDA Master Agreement, including a schedule, credit support annex and one or more confirmation(s) thereto and/or any other agreement between the LLP, an Interest Rate Swap Provider and the Security Trustee in the form of an ISDA Master Agreement, including the schedule, credit support annex and one or more confirmation(s) thereto which governs one or more Interest Rate Swaps; |
| **Interest Rate Swap Collateral Account** | (a) Each custody or bank account of the LLP to be opened and maintained by an Account Bank or (b) the Collateralised GIC Account (but only to the extent of any Swap Collateral posted thereto and recorded on the applicable Designated Interest Rate Swap Collateral Ledger), in each case for the purposes of holding Swap Collateral provided by an Interest Rate Swap Provider pursuant to and in accordance with the terms of the applicable Interest Rate Swap Agreement; |
| **Interest Rate Swap Collateral Account Ledger** | The ledger maintained by the Cash Manager on behalf of the LLP in respect of each Interest Rate Swap Provider to record the amount of Swap Collateral provided from time to time under the applicable Interest Rate Swap Agreement; |
| **Interest Rate Swap Early Termination Event** | The meaning given in *"Summary of the Principal Documents"* on page 237; |
| **Interest Rate Swap Provider** | Nationwide, in its capacity as interest rate swap provider under the Interest Rate Swap Agreement together with any successor interest rate swap provider; |
| **Interest Rate Swap (BMR)** | The interest rate swap in respect of the BMR Loans entered into between the LLP, Nationwide (in its capacity as Interest Rate Swap Provider) and the Security Trustee on 1 July 2016 pursuant to the amendment and restatement of certain pre-existing interest rate swaps (as the same may be amended, restated, supplemented, replaced or novated from time to time); |
| **Interest Rate Swap (Fixed)** | The interest rate swap in respect of the fixed rate Loans entered into between the LLP, Nationwide (in its capacity as Interest Rate Swap Provider) and the Security Trustee on 1 July 2016 pursuant to the amendment and restatement of certain pre-existing interest rate swaps (as the same may be amended, restated, supplemented, replaced or novated from time to time); |
| **Interest Rate Swap (SMR)** | The interest rate swap in respect of the SMR Loans entered into between the LLP, Nationwide (in its capacity as Interest Rate Swap Provider) and the Security Trustee on 1 July 2016 pursuant to the amendment and restatement of certain pre-existing interest rate swaps (as the same may be amended, restated, supplemented, replaced or novated from time to time); |
| **Interest Rate Swap (Tracker)** | The interest rate swap in respect of the tracker rate Loans entered into between the LLP, Nationwide (in its capacity as Interest Rate Swap Provider) and the Security Trustee on 1 July 2016 pursuant to the amendment and restatement of certain pre-existing interest rate swaps (as the same may be amended, restated, supplemented, replaced or novated from time to time); |

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| **Investor Report** | The quarterly report made available to the holders of the Covered Bonds, the Security Trustee, the Bond Trustee and the Rating Agencies detailing *inter alia* compliance with the Asset Coverage Test. Investor Reports shall be posted on the Nationwide website; |
| **ISDA** | International Swaps and Derivatives Association, Inc.; |
| **ISDA Definitions** | 2006 ISDA Definitions, as published by ISDA; |
| **ISDA Master Agreement** | The 1992 ISDA Master Agreement (Multicurrency Cross Border), as published by ISDA; |
| **ISDA Rate** | The meaning given in *"Terms and Conditions of the Covered Bonds"* on page 110; |
| **Issue Date** | Each date on which the Issuer issues Covered Bonds to holders of the Covered Bonds; |
| **Issuer** | Nationwide Building Society, a building society incorporated in England and Wales under the Building Societies Act 1986 (as amended), whose principal office is Nationwide House, Pipers Way, Swindon, SN38 1NW, and references to "**we**" or "**us**" in this prospectus should be read as references to Nationwide Building Society; |
| **Issuer Acceleration Notice** | The meaning given in Condition 9.1 (Issuer Events of Default) in *"Terms and Conditions of the Covered Bonds"* on page 126; |
| **Issuer Event of Default** | The meaning given in Condition 9.1 (Issuer Events of Default) in *"Terms and Conditions of the Covered Bonds"* on page 126; |
| **Issuer Subordinated Loan** | The meaning given in "*Summary of the Principal Documents*" on page 220; |
| **Jumbo Interest Rate Swaps** | The Interest Rate Swap (BMR), Interest Rate Swap (Fixed), Interest Rate Swap (SMR) and Interest Rate Swap (Tracker), and **Jumbo Interest Rate Swap** means any one of them; |
| **Latest Valuation** | In relation to any Property, the value given to that Property by the most recent valuation addressed to the Seller; |
| **Ledger** | Each of the Revenue Ledger, the Principal Ledger, the Reserve Ledger, the Capital Account Ledger, the Pre-Maturity Liquidity Ledger, the Intercompany Loan Ledger, the Supplemental Liquidity Reserve Ledger, the GIC Collateral Custody Account Ledger, the Designated Mortgages Amount Ledger, the Designated Collateral Amount Ledger, the Covered Bond Swap Collateral Account Ledgers, the Interest Rate Swap Collateral Account Ledgers, the Designated Covered Bond Swap Collateral Ledgers and the Designated Interest Rate Swap Collateral Ledgers; |
| **Legended Covered Bonds** | The meaning given in Condition 2 (Transfers of Registered Covered Bonds) in *"Terms and Conditions of the Covered Bonds"* on page 106; |
| **Lending Criteria** | The lending criteria of the Seller from time to time, or such other criteria as would be acceptable to a Reasonable, Prudent Mortgage Lender; |
| **LIBOR** | London inter-bank offered rate; |

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| **Liquidation Member** | Moulton Capital Finance Limited, a special purpose vehicle incorporated in England and Wales as a private limited company (registered no. 5372384); |
| **LLP** | Nationwide Covered Bonds LLP, a limited liability partnership incorporated in England and Wales (registered no. OC 313878), whose first members are Nationwide and the Liquidation Member; |
| **LLPA 2000** | Limited Liability Partnerships Act 2000; |
| **LLP Acceleration Notice** | A notice in writing given by the Bond Trustee to the Issuer and the LLP, that each Covered Bond of each Series is, and each Covered Bond of each Series shall as against the Issuer (if not already due and repayable against it following an Issuer Event of Default) and as against the LLP, thereupon immediately become, due and repayable at its Early Redemption Amount together with accrued interest as provided in and in accordance with the Trust Deed and thereafter the Security shall become enforceable if any of the LLP Events of Default shall occur and be continuing; |
| **LLP Accounts** | Each of any GIC Account, the Collateralised GIC Account, the Transaction Account, each Covered Bond Swap Collateral Account (to the extent maintained), each Interest Rate Swap Collateral Account (to the extent maintained), each GIC Collateral Custody Account (to the extent maintained) and any additional or replacement accounts opened in the name of the LLP from time to time including any Stand-by GIC Account and, to the extent maintained, any Stand-by Transaction Account, each Stand-by Covered Bond Swap Collateral Account and each Stand-by Interest Rate Swap Collateral Account; |
| **LLP Deed** | The limited liability partnership deed entered into on the Initial Programme Date as amended and restated on 21 February 2007, 30 November 2007, 30 April 2008, 19 June 2008, 18 December 2009, 28 June 2012 and 17 July 2013 between the LLP, Nationwide, the Liquidation Member, the Bond Trustee and the Security Trustee; |
| **LLP Event of Default** | The meaning given in Condition 9.2 (LLP Events of Default) in *"Terms and Conditions of the Covered Bonds"* on page 129; |
| **LLP Management Committee** | The Management Committee which will act on behalf of the LLP and to which (other than any decision to approve the audited accounts of the LLP or to make a resolution for the voluntary winding up of the LLP, which requires a unanimous decision of the Members) the Members delegate all matters; |
| **LLP Payment Date** | The 17th day of each month or if not a London Business Day the next following London Business Day; |
| **LLP Payment Period** | The period from (and including) an LLP Payment Date to (but excluding) the next following LLP Payment Date; |
| **Loan** | Any mortgage loan (including, for the avoidance of doubt, any Scottish Loan and any Northern Irish Loan) which is sold and assigned by the Seller to the LLP from time to time under the terms of the Mortgage Sale Agreement and referenced by its mortgage loan identifier number and comprising the aggregate of all principal sums, interest, costs, charges, expenses and other moneys (including all Additional Loan Advances) due or owing with respect to that mortgage loan under the relevant Mortgage Conditions by a Borrower on the security of a Mortgage from time to time outstanding, or, as the context may require, the Borrower's obligations in respect of |

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| | the same but excluding any mortgage loan which is repurchased by the Seller or otherwise sold by the LLP and no longer beneficially owned by it; |
| **Loan Account** | As the context requires, either (a) all Loans secured on the same Property or (b) an account maintained by the Servicer in respect of a particular Loan (whether by way of principal, interest or otherwise) and all amounts received in respect thereof; |
| **Loan Files** | The file or files relating to each Loan (including files kept in microfiche format or similar electronic data retrieval system) containing *inter alia* correspondence between the Borrower and the Seller and including the mortgage documentation applicable to the Loan, each letter of offer for that Loan, the Valuation Report (if applicable) and, to the extent available, the solicitor's or licensed conveyancer's, or (in Scotland) qualified conveyancer's, Certificate of Title; |
| **Loan Without Independent Valuation** | A Loan which was not the subject of a Valuation Report by reason of the relevant loan-to-value ratio being less than 40% or being an Additional Loan Advance where an updated Valuation Report was not obtained in relation to such Additional Loan Advance; |
| **London Business Day** | A day (other than a Saturday or Sunday) on which banks and foreign exchange markets are open for general business in London; |
| **London Stock Exchange** | London Stock Exchange plc; |
| **Long Maturity Covered Bond** | A Fixed Rate Covered Bond (other than a Fixed Rate Covered Bond which on issue had a Talon attached) whose nominal amount on issue is less than the aggregate interest payable thereon provided that such Covered Bond shall cease to be a Long Maturity Covered Bond on the Interest Payment Date on which the aggregate amount of interest remaining to be paid after that date is less than the Principal Amount Outstanding of such Covered Bond; |
| **Losses** | All realised losses on the Loans; |
| **Master Definitions and Construction Agreement** | The master definitions and construction agreement dated on or about the Initial Programme Date as amended and restated on 27 November 2006, 25 June 2007, 30 November 2007, 30 April 2008, 19 June 2008, 3 July 2009, 18 December 2009, 28 June 2012 and 17 July 2013 (as further amended and/or supplemented and/or restated from time to time) made between the parties to the Transaction Documents; |
| **MCOB** | Mortgages and Home Finance: Conduct of Business Sourcebook, implemented by the FCA on 31 October 2004 as amended, revised or supplemented from time to time; |
| **Member** | Each member of the LLP; |
| **Member States** | Member States of the European Community; |
| **MHA Documentation** | An affidavit, consent or renunciation granted in terms of the Matrimonial Homes (Family Protection) (Scotland) Act 1981 in connection with a Scottish Mortgage or the Property secured thereby; |

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| **Modified Following Business Day Convention** | The meaning given in Condition 4 (Interest) in *"Terms and Conditions of the Covered Bonds"* on page 109; |
| **Monthly Payment Date** | In relation to a Loan, the date in each month on which the relevant Borrower is required to make a payment of interest and, if applicable, principal for that Loan, as required by the applicable Mortgage Conditions; |
| **Moody's** | Moody's Investors Service Limited; |
| **Mortgage** | (a) In respect of any Loan (other than any Flexible Advance related to a Loan entered into before 1 September 2002) each first charge by way of legal mortgage (in relation to an English Loan), each first legal charge or mortgage (in relation to a Northern Irish Loan) and each first ranking standard security (in relation to a Scottish Loan), sold by the Seller to the LLP pursuant to the Mortgage Sale Agreement, in either case which secures the repayment of the relevant Loan including the Mortgage Conditions applicable to it and (b) in respect of any Flexible Advance related to a Loan entered into before 1 September 2002, the second or later ranking legal charge over the English Property or Northern Irish Property or the second or later ranking standard security over the Scottish Property; |
| **Mortgage Conditions** | All the terms and conditions applicable to a Loan, including without limitation those set out in the Seller's relevant mortgage conditions booklet and the Seller's relevant general conditions, each as varied from time to time by the relevant mortgage loan agreement and the relevant Mortgage Deed; |
| **Mortgage Deed** | In respect of any Mortgage, the deed creating that Mortgage; |
| **Mortgage Sale Agreement** | The mortgage sale agreement dated the Initial Programme Date and as amended and restated on 30 April 2008, 1 December 2008 and 18 December 2009 (as amended and/or supplemented and/or restated from time to time) entered into between the Seller, the LLP and the Security Trustee; |
| **N Covered Bond** | A Registered Covered Bond in definitive registered form made out in the name of a specified N Covered Bondholder issued or to be issued by the Issuer in accordance with the provisions of the Agency Agreement and in accordance with and constituted by the Trust Deed, in the form of a German "*Namensschuldverschreibung*" substantially in the form set out in the Trust Deed with such modifications (if any) as may be agreed between the Issuer, the LLP, the Bond Trustee and the relevant N Covered Bondholder and having the N Covered Bond Conditions applicable to it annexed thereto and subject to the provisions of the N Covered Bond Confirmation (incorporating the N Covered Bond Confirmation Terms) relating thereto; |
| **N Covered Bondholder** | The registered holder of an N Covered Bond; |
| **N Covered Bond Assignment Agreement** | An assignment agreement substantially in the form attached to the relevant N Covered Bond delivered in accordance with the N Covered Bond Conditions in respect of the relevant Series of N Covered Bonds; |
| **N Covered Bond Conditions** | The terms and conditions of each N Covered Bond annexed thereto; |

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| **N Covered Bond Confirmation** | In relation to each N Covered Bond, a confirmation incorporating the N Covered Bond Confirmation Terms and signed by the N Covered Bondholder, the LLP, the Issuer and the Bond Trustee, substantially in the form set out in Schedule 6 to the Trust Deed; |
| **N Covered Bond Confirmation Terms** | The standard set of confirmation terms relating to each N Covered Bond, substantially in the form set out in Schedule 6 to the Trust Deed as may be amended from time to time in accordance with the Trust Deed; |
| **N(M)** | A further stage of the FSMA 2000 which came into effect on 31 October 2004; |
| **Nationwide** | Nationwide Building Society, a building society incorporated in England and Wales under the Building Societies Act 1986 (as amended), whose principal office is Nationwide House, Pipers Way, Swindon, SN38 1NW; |
| **Nationwide Group** | Nationwide and its Subsidiaries collectively; |
| **Nationwide Index** | The index of increases or decreases in house prices issued by Nationwide in relation to residential properties in the United Kingdom; |
| **Nationwide Price Indexed Valuation** | In relation to any Property at any date means the Latest Valuation of that property increased or decreased as appropriate by the increase or decrease in the Nationwide Index since the date of that Latest Valuation; |
| **Negative Carry Factor** | The meaning given on page 224; |
| **New Global Covered Bond or NGCB** | A Temporary Global Covered Bond in the form set out in Part A of Schedule 2 to the Trust Deed or a Permanent Global Covered Bond in the form set out in Part B of Schedule 2 to the Trust Deed, in either case where the applicable Final Terms specify that the Covered Bonds are in New Global Covered Bond form; |
| **New Loan** | Loans, other than the Loans comprised in the Initial Portfolio, which the Seller may assign or transfer to the LLP after the First Transfer Date pursuant to the Mortgage Sale Agreement; |
| **New Loan Type** | A new type of mortgage loan originated or acquired by the Seller, which the Seller intends to transfer to the LLP, the terms and conditions of which are materially different (in the opinion of the Seller, acting reasonably) from the Loans. For the avoidance of doubt, a mortgage loan will not constitute a New Loan Type if it differs from the Loans due to it having different interest rates and/or interest periods and/or time periods for which it is subject to a fixed rate, capped rate, tracker rate or any other interest rate or the benefit of any discounts, cash-backs and/or rate guarantees; |
| **New Member** | Any new member admitted to the LLP after the Programme Date; |
| **New Portfolio** | The meaning given in *"The Portfolio"* on page 264; |
| **New Portfolio Notice** | A notice in the form set out in Schedule 11 to the Mortgage Sale Agreement served in accordance with the terms of the Mortgage Sale Agreement; |
| **New Rating Counterparty** | Any counterparty criteria of Fitch, Moody's or S&P which has been updated or replaced; |

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| **Criteria** | |
| **New Rating Counterparty Criteria Amendment** | Any modifications to any Transaction Document made pursuant to the terms of the Trust Deed and the Deed of Charge to reflect New Rating Counterparty Criteria; |
| **New Rating Criteria** | Any rating criteria of Fitch, Moody's or S&P which has been updated or replaced; |
| **New Rating Criteria Amendment** | Any modifications to a Swap Agreement made pursuant to the terms of the Trust Deed and the Deed of Charge to reflect New Rating Criteria and any modifications to the Transaction Documents which are consequential to such modifications to the Swap Agreement; |
| **New Regulatory Requirements** | Any provisions, rules, regulations, directions, processes, guidelines and procedures relating to any applicable laws or regulations affecting the regulatory treatment of the LLP or the relevant Swap Provider (including, without limitation, any associated regulatory or implementing technical standards and advice, guidance or recommendations from relevant competent authorities or ESMA) which have been clarified, updated, delivered, amended, modified or become operative or applicable; |
| **New Regulatory Requirements Amendment** | Any modifications to a Swap Agreement made pursuant to the terms of the Trust Deed and the Deed of Charge to reflect New Regulatory Requirements and any modifications to the Transaction Documents which are consequential to such modifications to the Swap Agreement; |
| **New Seller** | Any member of the Nationwide Group (other than Nationwide) that is a "connected person" as defined in Regulation 5 of the RCB Regulations and that accedes to the relevant Transaction Documents and sells Loans and their Related Security to the LLP in the future; |
| **NIPs** | Non-Investment Products Code; |
| **Non-cash Re-draws** | Authorised Underpayments or Payment Holidays under Flexible Loans included in the Portfolio, which will result in the Seller being required to pay to the LLP an amount equal to the unpaid interest associated with that Authorised Underpayment or Payment Holiday; |
| **Northern Irish Loans** | Loans secured by Northern Irish Mortgages; |
| **Northern Irish Mortgage** | A Mortgage over a Property located in Northern Ireland; |
| **Notice to Pay** | The meaning given in Condition 9.1 (Issuer Events of Default) in *"Terms and Conditions of the Covered Bonds"* on page 128; |
| **NSS** | The New Safekeeping Structure for registered global securities which are intended to constitute eligible collateral for Eurosystem monetary policy operations; |
| **Official List** | Official list of the UK Listing Authority; |
| **OFT** | Office of Fair Trading; |

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| **Ombudsman** | Financial Ombudsman Service under the FSMA 2000; |
| **Order** | Financial Services and Markets Act 2000 (Regulated Activities) Order 2001 (SI 2001/544), as amended; |
| **Original Due for Payment Date** | The meaning given in paragraph (a)(i) of the definition of **Due for Payment**; |
| **Overpayment** | A payment by a Borrower in an amount greater than the amount due on a Monthly Payment Date which (a) is permitted by the terms of such Loan or by agreement with the Borrower and (b) reduces the True Balance of such Loan; |
| **Partial Portfolio** | Part of any portfolio of Selected Loans; |
| **Participating FFI** | The meaning given in "Foreign Account Tax Compliance Act" on page 269; |
| **Paying Agents** | The meaning given in *"Terms and Conditions of the Covered Bonds"* on page 101; |
| **Payment Day** | The meaning given in Condition 5 (Payments) in *"Terms and Conditions of the Covered Bonds"* on page 117; |
| **Payment Holiday** | The right of a Borrower, under the applicable Mortgage Conditions, to not make a monthly payment for one or more months in certain circumstances; |
| **Permanent Global Covered Bond** | The meaning given in *"Form of the Covered Bonds"* on page 87; |
| **Portfolio** | The Initial Portfolio and each New Portfolio acquired by the LLP; |
| **Post-Enforcement Priority of Payments** | The meaning given in *"Cashflows"* on page 261; |
| **Potential Issuer Event of Default** | The meaning given in Condition 14 (Meetings of holders of the Covered Bonds, Modification, Waiver and Substitution) in *"Terms and Conditions of the Covered Bonds"* on page 136; |
| **Potential LLP Event of Default** | The meaning given in Condition 14 (Meetings of holders of the Covered Bonds, Modification, Waiver and Substitution) in *"Terms and Conditions of the Covered Bonds"* on page 136; |
| **PRA** | Prudential Regulation Authority; |
| **Pre-Acceleration Principal Priority of Payments** | The meaning given in *"Cashflows"* on page 255; |
| **Pre-Acceleration Revenue Priority of Payments** | The meaning given in *"Cashflows"* on page 252; |
| **Preceding Business Day Convention** | The meaning given in Condition 4.2 (Interest on Floating Rate Covered Bonds) in *"Terms and Conditions of the Covered Bonds"* on page 110; |

**Pre-Maturity Liquidity Ledger** The ledger on the GIC Account maintained by the Cash Manager pursuant to the Cash Management Agreement to record the credits and debits of moneys available to repay any Series of Hard Bullet Covered Bonds on the Final Maturity Date thereof if the Pre-Maturity Test has been breached;

**Pre-Maturity Test** The meaning given in "*Credit Structure – Pre-Maturity Liquidity*" on page 247;

**Pre-Maturity Test Date** The meaning given in "*Credit Structure – Pre-Maturity Liquidity*" on page 247;

**Principal Amount Outstanding** In respect of a Covered Bond, the principal amount of that Covered Bond on the relevant Issue Date thereof less principal amounts received by the relevant holder of the Covered Bond in respect thereof;

**Principal Ledger** The ledger in connection with any GIC Account or the Collateralised GIC Account, as applicable, of such name maintained by the Cash Manager pursuant to the Cash Management Agreement to record the credits and debits of the Principal Receipts in accordance with the terms of the LLP Deed;

**Principal Paying Agent** The meaning given in *"Terms and Conditions of the Covered Bonds"* on page 100;

**Principal Receipts**

(a) principal repayments under the Loans (including payments of arrears, Capitalised Interest, Capitalised Expenses and Capitalised Arrears);

(b) recoveries of principal from defaulting Borrowers under Loans being enforced (including the proceeds of sale of the relevant Property);

(c) any payment pursuant to any insurance policy in respect of a Property in connection with a Loan in the Portfolio; and

(d) the proceeds of the repurchase of any Loan by the Seller from the LLP pursuant to the Mortgage Sale Agreement (including, for the avoidance of doubt, amounts attributable to Accrued Interest and Arrears of Interest thereon as at the relevant repurchase date);

**Priorities of Payments** The orders of priority for the allocation and distribution of amounts standing to the credit of the LLP Accounts (except for the Covered Bond Swap Collateral Accounts and the Stand-by Covered Bond Swap Collateral Accounts) in different circumstances;

**Product Switch** A variation to the financial terms or conditions included in the Mortgage Conditions applicable to a Loan other than:

(a) any variation agreed with a Borrower to control or manage arrears on a Loan;

(b) any variation in the maturity date of a Loan;

(c) any variation imposed by statute or any variation in the frequency with which the interest payable in respect of the Loan is charged;

**Programme** Nationwide's €45 billion Covered Bond Programme;

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| **Programme Agreement** | The meaning given in *"Subscription and Sale and Transfer and Selling Restrictions"* on page 288; |
| **Programme Date** | 28 June 2012; |
| **Programme Resolution** | Any Extraordinary Resolution to direct the Bond Trustee to accelerate the Covered Bonds pursuant to Condition 9 (Events of Default and Enforcement) or to direct the Bond Trustee or the Security Trustee to take any enforcement action; |
| **Properties in Possession Policies** | The properties in possession policy written by Churchill Insurance Company Limited in favour of the Seller and any endorsements or extensions thereto as issued from time to time, or any such similar alternative or replacement properties in possession policy or policies as may be effected from time to time to cover a Seller in respect of Loans and their Related Security, such other properties in possession policy or policies to provide such level of cover as would be acceptable to a Reasonable, Prudent Mortgage Lender at the date of such other policy or policies; |
| **Property** | A freehold or leasehold property (or in Scotland a heritable property or a property held under a long lease) which is subject to a Mortgage; |
| **Purchaser** | Any third party or the Seller to whom the LLP offers to sell Selected Loans; |
| **QIB** | A "qualified institutional buyer" within the meaning of Rule 144A; |
| **Rating Agencies** | Moody's, S&P and Fitch, and each a **Rating Agency**; |
| **Rating Agency Confirmation** | A confirmation in writing by each of the Rating Agencies that the then current ratings of the Covered Bonds will not be adversely affected by or withdrawn as a result of the relevant event or matter; |
| **RCB Regulations** | Regulated Covered Bonds Regulations 2008 (SI 2008/346), as amended by the Regulated Covered Bonds (Amendments) Regulations 2008 (SI 2008/1714), the Regulated Covered Bonds (Amendment) Regulations 2011 (SI 2011/2859) and the Regulated Covered Bonds (Amendment) Regulations 2012 (SI 2012/2977) and as further amended from time to time; |
| **RCB Sourcebook** | Regulated Covered Bond Specialist Sourcebook 2008 published under the FSMA 2000; |
| **Reasonable, Prudent Mortgage Lender** | The Seller and/or the Servicer, as applicable, acting in accordance with the standards of a reasonably prudent residential mortgage lender lending to borrowers in England, Wales, Scotland and/or Northern Ireland who generally satisfy the lending criteria of traditional sources of residential mortgage capital; |
| **Recalcitrant Holder** | Recalcitrant Holder The meaning given in "Foreign Account Tax Compliance Act" on page 269; |
| **Record Date** | The meaning given in Condition 5 (Payments) in *"Terms and Conditions of the Covered Bonds"* on page 116; |
| **Redeemed Covered Bonds** | The meaning given in Condition 5 (Payments) in *"Terms and Conditions of the Covered Bonds"* on page 122; |

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| **Re-draw** | Either a Cash Re-draw or a Non-cash Re-draw; |
| **Reference Lenders** | The banks and building societies specified as the Reference Lenders in the Interest Rate Swap Agreement, being at the date of this Base Prospectus, Barclays Bank PLC, HSBC Bank plc, Lloyds Bank plc, the Royal Bank of Scotland plc and Santander UK plc (or their respective successors); |
| **Register** | The register of holders of the Registered Covered Bonds maintained by the Registrar; |
| **Registered Covered Bonds** | Covered Bonds in registered form; |
| **Registered Definitive Covered Bond** | A Registered Covered Bond in definitive form issued or, as the case may require, to be issued by the Issuer in accordance with the provisions of the Programme Agreement or any other agreement between the Issuer and the relevant Dealer(s), the Agency Agreement and the Trust Deed either on issue or in exchange for a Registered Global Covered Bond or part thereof (all as indicated in the applicable Final Terms), such Registered Covered Bond in definitive form being in the form or substantially in the form set out in Part 9 of Schedule 2 to the Trust Deed with such modifications (if any) as may be agreed between the Issuer, the Principal Paying Agent, the Bond Trustee and the relevant Dealer(s) and having the Conditions endorsed thereon or, if permitted by the relevant Stock Exchange, incorporating the Conditions by reference (where applicable to the Trust Deed) as indicated in the applicable Final Terms and having the relevant information supplementing, replacing or modifying the Conditions appearing in the applicable Final Terms endorsed thereon or attached thereto and having a Form of Transfer endorsed thereon; |
| **Registered Global Covered Bonds** | The Rule 144A Global Covered Bonds together with the Regulation S Global Covered Bonds; |
| **Registers of Northern Ireland** | The Land Registry of Northern Ireland and/or the Registry of Deeds in Belfast; |
| **Registers of Scotland** | The Land Register of Scotland and the General Register of Sasines; |
| **Registrar** | Citibank N.A., London Branch, 21st floor, Citigroup Centre, Canada Square, Canary Wharf, London E14 5LB in its capacity as registrar (and any successor registrar); |
| **Regulated Covered Bonds** | Covered Bonds that have been admitted to the register of covered bonds maintained by the FCA pursuant to the RCB Regulations; |
| **Regulated Mortgage Contract** | The meaning given in *"Regulatory changes by the Financial Conduct Authority, the CMA and any other regulatory authorities"* on page 72; |
| **Regulation S** | Regulation S under the Securities Act; |
| **Regulation S Covered Bond** | The meaning given in *"Subscription and Sale and Transfer and Selling Restrictions"* on page 292; |
| **Regulation S Global Covered Bond** | The meaning given in *"Form of the Covered Bonds"* on page 88; |

**Related Security** In relation to a Loan, the security for the repayment of that Loan including the relevant Mortgage and all other matters applicable thereto acquired as part of the Portfolio;

**Relevant Date** The meaning given in Condition 7 (Taxation) in *"Terms and Conditions of the Covered Bonds"* on page 125;

**Reporting FI** The meaning given in "Foreign Account Tax Compliance Act" on page 269;

**Representations and Warranties** The representations and warranties set out in Schedule 1 (Representations and Warranties) to the Mortgage Sale Agreement;

**Repurchase Notice** A notice from the Cash Manager to the Seller identifying a Loan or its Related Security in the Portfolio which does not, as at the relevant Transfer Date or relevant Calculation Date (in the case of an Additional Loan Advance), materially comply with the Representations and Warranties set out in the Mortgage Sale Agreement;

**Required Redemption Amount** The meaning given in *"Summary of the Principal Documents"* on page 213;

**Required True Balance Amount** The meaning given in *"Summary of the Principal Documents"* on page 227;

**Reserve Fund** The reserve fund that the LLP will be required to establish in the GIC Account which will be credited with part of a Term Advance (in the LLP's discretion), any part of a Cash Capital Contribution, if directed by Nationwide (in its capacity as a Member) and the proceeds of Available Revenue Receipts up to an amount equal to the Reserve Fund Required Amount;

**Reserve Fund Required Amount** If the Issuer's short-term, unsecured, unsubordinated and unguaranteed debt obligations are rated at least A-1+ by S&P, F1+ by Fitch and the Issuer is assigned a counterparty risk assessment by Moody's of at least P-1(cr), nil (or such other amount as Nationwide shall direct the LLP from time to time) and otherwise, an amount equal to the higher of:

(a) the Sterling Equivalent of one month's interest due on each Series of Covered Bonds together with an amount equal to one-twelfth of the anticipated aggregate annual amount payable in respect of the items specified in paragraphs (a) and (b) of the Pre-Acceleration Revenue Priority of Payments; and

(b) the sum of:

(i) for each Series of Covered Bonds in respect of which the Issuer is the Covered Bond Swap Provider or where there is no Covered Bond Swap Provider, an amount equal to the Sterling Equivalent of the interest falling due on such Series of Covered Bonds in the next following three month period;

(ii) for each Series of Covered Bonds in respect of which the Issuer is not the Covered Bond Swap Provider, the aggregate of amounts in sterling falling due to the Covered Bond Swap Provider in relation

to such Series of Covered Bonds in the next following three month period; and

(iii) the Sterling Equivalent of an amount equal to the anticipated amounts payable in respect of the items specified in paragraphs (a) and (b) of the Pre-Acceleration Revenue Priority of Payments falling due in the next following three month period,

plus £600,000 (or such higher amount as Nationwide shall direct the LLP from time to time);

**Reserve Ledger** The ledger on any GIC Account of such name maintained by the Cash Manager pursuant to the Cash Management Agreement to record the crediting of Revenue Receipts to the Reserve Fund and the debiting of such Reserve Fund in accordance with the terms of the LLP Deed;

**Reset Date** The meaning given in the ISDA Definitions;

**Reset Interest Rate Swap**

(a) each interest rate swap entered into between the LLP, Nationwide (in its capacity as Interest Rate Swap Provider) and the Security Trustee on or about 3 April 2009 pursuant to the amendment of certain pre-existing interest rate swaps (as the same may be amended, restated, supplemented, replaced or novated from time to time) in respect of a particular Series or Tranche of Covered Bonds; and

(b) if required, each interest rate swap entered into between the LLP, an Interest Rate Swap Provider and the Security Trustee on or about the Issue Date of a particular Series or Tranche of Covered Bonds in respect of that Series or Tranche of Covered Bonds (as the same may be amended, restated, supplemented, replaced or novated from time to time);

**Revenue Ledger** The ledger of such name in connection with any GIC Account or the Collateralised GIC Account, as applicable, maintained by the Cash Manager pursuant to the Cash Management Agreement to record credits and debits of Revenue Receipts in accordance with the terms of the LLP Deed;

**Revenue Receipts**

(a) payments of interest (excluding Accrued Interest and Arrears of Interest as at the relevant Transfer Date of a Loan) and other fees due from time to time under the Loans and other amounts received by the LLP in respect of the Loans other than the Principal Receipts;

(b) recoveries of interest from defaulting Borrowers under Loans being enforced; and

(c) recoveries of interest and/or principal from defaulting Borrowers under Loans in respect of which enforcement procedures have been completed;

**Rule 144A** Rule 144A under the Securities Act;

**Rule 144A Global Covered Bond** A Global Covered Bond in registered form representing the Registered Covered Bonds of a Tranche sold to QIBs pursuant to Rule 144A;

**Rules** The rules, regulations and procedures creating and affecting DTC and its operations;

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| **S&P** | S&P Global Ratings, a division of S&P Global; |
| **Sale Proceeds** | The cash proceeds realised from the sale of Selected Loans and their Related Security; |
| **Scheduled Interest** | An amount equal to the amount in respect of interest which would have been due and payable under the Covered Bonds on each Interest Payment Date as specified in Condition 4 (Interest) (but excluding any additional amounts relating to premiums, default interest or interest upon interest (**Excluded Scheduled Interest Amounts**) payable by the Issuer following an Issuer Event of Default but including such amounts (whenever the same arose) following service of an LLP Acceleration Notice) as if the Covered Bonds had not become due and repayable prior to their Final Maturity Date and, if the Final Terms specified that an Extended Due for Payment Date is applicable to the relevant Covered Bonds, as if the maturity date of the Covered Bonds had been the Extended Due for Payment Date (but taking into account any principal repaid in respect of such Covered Bonds or any Guaranteed Amounts paid in respect of such principal prior to the Extended Due for Payment Date), less any additional amounts the Issuer would be obliged to pay as a result of any gross-up in respect of any withholding or deduction made under the circumstances set out in Condition 7 (Taxation); |
| **Scheduled Payment Date** | In relation to payments under the Covered Bond Guarantee, each Interest Payment Date or the Final Maturity Date as if the Covered Bonds had not become due and repayable prior to their Final Maturity Date; |
| **Scheduled Principal** | An amount equal to the amount in respect of principal which would have been due and repayable under the Covered Bonds on each Interest Payment Date or the Final Maturity Date (as the case may be) as specified in Condition 6.1 (Final redemption) and Condition 6.4 (Redemption due to illegality) (but excluding any additional amounts relating to prepayments, early redemption, broken funding indemnities, penalties, premiums or default interest (**Excluded Scheduled Principal Amounts**) payable by the Issuer following an Issuer Event of Default but including such amounts (whenever the same arose) following service of an LLP Acceleration Notice) as if the Covered Bonds had not become due and repayable prior to their Final Maturity Date and, if the Final Terms specifies that an Extended Due for Payment Date is applicable to the relevant Covered Bonds, as if the maturity date of the Covered Bonds had been the Extended Due for Payment Date; |
| **Scottish Declaration of Trust** | Each declaration of trust in relation to Scottish Loans and their Related Security made pursuant to the Mortgage Sale Agreement by means of which the sale of such Scottish Loans and their Related Security by the Seller to the LLP and the transfer of the beneficial interest therein to the LLP are given effect; |
| **Scottish Loans** | Loans secured by Scottish Mortgages; |
| **Scottish Mortgage** | A Mortgage over a Property located in Scotland; |
| **Scottish Sub-Security** | Each standard security granted by the LLP in favour of the Security Trustee pursuant to Clause 3.3 of the Deed of Charge; |

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| **Scottish Supplemental Charge** | Each supplemental assignation in security governed by Scots law granted by the LLP in favour of the Security Trustee pursuant to the Deed of Charge; |
| **SEC** | US Securities and Exchange Commission; |
| **Secured Creditors** | The Security Trustee (in its own capacity and on behalf of the other Secured Creditors), the Bond Trustee (in its own capacity and on behalf of the Covered Bondholders), the Covered Bondholders, the Receiptholders, the Couponholders, the Issuer, the Seller, the Servicer, any Account Bank, any Additional Account Bank, the Back-Up Servicer Facilitator, the Back-Up Cash Manager Facilitator, any GIC Provider, any Stand-by Account Bank, any Stand-by GIC Provider, the Cash Manager, the Swap Providers, the Corporate Services Provider, the Paying Agents, the Back-Up Servicer (upon acceding to the Deed of Charge), the Back-Up Cash Manager (upon acceding to the Deed of Charge) and any other person which becomes a Secured Creditor pursuant to the Deed of Charge; |
| **Securities Act** | US Securities Act of 1933, as amended; |
| **Securities and Exchange Law** | The Securities and Exchange Law of Japan; |
| **Security** | The meaning given in *"Summary of the Principal Documents"* on page 243; |
| **Security Trustee** | Citicorp Trustee Company Limited, in its capacity as security trustee under the Trust Deed and the Deed of Charge together with any successor security trustee appointed from time to time; |
| **Selected Loan Offer Notice** | A notice from the LLP served on the Seller offering to sell Selected Loans and their Related Security for an offer price equal to the greater of the then True Balance of the Selected Loans and the Adjusted Required Redemption Amount; |
| **Selected Loan Repurchase Notice** | A notice from the Seller served on the LLP accepting an offer set out in a Selected Loan Offer Notice; |
| **Selected Loans** | Loans and their Related Security to be sold by the LLP pursuant to the terms of the LLP Deed having in aggregate the Required True Balance Amount; |
| **Selection Date** | The meaning given in Condition 6 (Redemption and Purchase) in *"Terms and Conditions of the Covered Bonds"* on page 122; |
| **Seller** | Nationwide Building Society and any New Seller; |
| **Series** | A Tranche of Covered Bonds together with any further Tranche or Tranches of Covered Bonds which are (a) expressed to be consolidated and form a single series and (b) identical in all respects (including as to listing) except for their respective Issue Dates, Interest Commencement Dates and/or Issue Prices; |
| **Series Reserved Matter** | In relation to Covered Bonds of a Series:<br>(a) reduction or cancellation of the amount payable or, where applicable, modification of the method of calculating the amount payable or |

modification of the date of payment or, where applicable, modification of the method of calculating the date of payment in respect of any principal or interest in respect of the Covered Bonds;

(b) alteration of the currency in which payments under the Covered Bonds, Receipts and Coupons are to be made;

(c) alteration of the majority required to pass an Extraordinary Resolution;

(d) any amendment to the Covered Bond Guarantee or the Deed of Charge (except in a manner determined by the Bond Trustee not to be materially prejudicial to the interests of the holders of Covered Bonds of any Series);

(e) except in accordance with Condition 6.7 (Cancellation) or Condition 14 (Meetings of holders of the Covered Bonds, Modification, Waiver and Substitution), the sanctioning of any such scheme or proposal for the exchange or sale of the Covered Bonds for, or the conversion of the Covered Bonds into, or the cancellation of the Covered Bonds in consideration of, shares, stock, covered bonds, bonds, debentures, debenture stock and/or other obligations and/or securities of the Issuer or any other company formed or to be formed, or for or into or in consideration of cash, or partly for or into or in consideration of such shares, stock, bonds, covered bonds, debentures, debenture stock and/or other obligations and/or securities as aforesaid and partly for or into or in consideration of cash and for the appointment of some person with power on behalf of the holders of Covered Bonds to execute an instrument of transfer of the Registered Covered Bonds held by them in favour of the persons with or to whom the Covered Bonds are to be exchanged or sold respectively; and

(f) alteration of the proviso to paragraph 5 or paragraph 6 of Schedule 4 to the Trust Deed;

**Servicer** Nationwide in its capacity as servicer under the Servicing Agreement together with any successor servicer appointed from time to time;

**Servicer Event of Default** The meaning given in *"Summary of the Principal Documents"* on page 217;

**Servicer Termination Event** The meaning given in *"Summary of the Principal Documents"* on page 217;

**Servicing Agreement** The servicing agreement dated the Initial Programme Date as amended and restated on 30 April 2008 (as amended and/or supplemented and/or restated from time to time) entered into between the LLP, the Servicer and the Security Trustee;

**Share Trustee** Wilmington Trust SP Services (London) Limited, having its registered office at Third Floor, 1 King`s Arms Yard, London EC2R 7AF;

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| **SMR** | The Seller's uncapped standard mortgage rate which was introduced in April 2009; |
| **SMR Loans** | Loans that are subject to the Seller's SMR. |
| **Society** | Nationwide; |
| **Soft Bullet Covered Bond** | Any Covered Bond issued by the Issuer in respect of which the payment of the Final Redemption Amount may be deferred to an Extended Due for Payment Date falling after the Final Maturity Date, should the LLP have insufficient funds to pay such Final Redemption Amount on the Final Maturity Date of that Covered Bond; |
| **Specified Currency** | Subject to any applicable legal or regulatory restrictions, euro, Sterling, US Dollars and such other currency or currencies as may be agreed from time to time by the Issuer, the relevant Dealer(s), the Principal Paying Agent and the Bond Trustee and specified in the applicable Final Terms; |
| **Specified Denomination** | In respect of a Series of Covered Bonds, the denomination or denominations of such Covered Bonds specified in the applicable Final Terms; |
| **Specified Interest Payment Date** | The meaning given in the applicable Final Terms; |
| **Specified Period** | The meaning given in the applicable Final Terms; |
| **Standard Documentation** | The standard documentation, annexed to the relevant exhibit of the Mortgage Sale Agreement or any update or replacement therefor as the Seller may from time to time introduce acting in accordance with the standards of a Reasonable, Prudent Mortgage Lender; |
| **Standard Variable Rate** | The Nationwide BMR or SMR; |
| **Stand-by Account** | Any Stand-by GIC Account, each Stand-by Covered Bond Swap Collateral Account, each Stand-by Interest Rate Swap Collateral Account and/or any Stand-by Transaction Account; |
| **Stand-by Account Bank** | The meaning given in *"Summary of the Principal Documents"* on page 242; |
| **Stand-by Bank Account Agreement** | The meaning given in *"Summary of the Principal Documents"* on page 242; |
| **Stand-by Covered Bond Swap Collateral Account** | Each custody or bank account of the LLP to be opened and maintained with a Stand-by Account Bank in accordance with and subject to the terms of a Stand-by Bank Account Agreement and the Deed of Charge or such additional or replacement account as may be for the time being in place and designated as such opened and maintained with any Additional Stand-by Account Bank and subject to the terms of a Stand-by Bank Account Agreement and the Deed of Charge; |
| **Stand-by GIC Account** | The meaning given in *"Summary of the Principal Documents"* on page 242; |

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| **Stand-by GIC Provider** | The meaning given in *"Summary of the Principal Documents"* on page 243; |
| **Stand-by Guaranteed Investment Contract** | The meaning given in *"Summary of the Principal Documents"* on page 243; |
| **Stand-by Transaction Account** | The meaning given on page 242; |
| **Sterling Equivalent** | in relation to (i) a Term Advance which is denominated in a currency other than Sterling, the Sterling equivalent of such amount ascertained using the relevant Covered Bond Swap Rate relating to such Term Advance (ii) any other amount which is denominated in a currency other than Sterling, the Sterling equivalent of such amount ascertained by Nationwide using the spot rate of exchange on the relevant date; and (iii) a Term Advance or another amount which is denominated in Sterling, that amount; |
| **Subsidiary** | Any company which is for the time being a subsidiary (within the meaning of Section 1159 of the Companies Act 2006 of Great Britain); |
| **Substitution Assets** | Each of:<br>(a) Sterling gilt-edged securities;<br>(b) Sterling demand or time deposits provided that in all cases such investments have a remaining period to maturity of one year or less and the short-term unsecured, unguaranteed and unsubordinated debt obligations or, as applicable, the long-term unsecured, unguaranteed and unsubordinated debt obligations of the issuing or guaranteeing entity or the entity with which the demand or time deposits are made (being an authorised person under the FSMA 2000) are rated at least A-1+/AA- by S&P and F1+ by Fitch and such entity is assigned a counterparty risk assessment by Moody's of at least P-1(cr) short-term and Aa3(cr) long-term, or their equivalents by three other internationally recognised rating agencies; and<br>(c) Sterling denominated government and public securities, as defined from time to time in accordance with the RCB Regulations, provided that such investments have a remaining period to maturity of one year or less and which are rated at least Aaa by Moody's, AAA by S&P and F1+ by Fitch or their equivalents by three other internationally recognised rating agencies,<br>provided that such Substitution Assets comply with the requirements of Regulation 2(1A) of the RCB Regulations; |
| **sub-unit** | With respect to any currency other than euro, the lowest amount of such currency that is available as legal tender in the country of such currency and, with respect to euro, euro 0.01; |
| **Successor in Business** | The meaning given in Condition 14 (Meetings of holders of the Covered Bonds, Modification, Waiver and Substitution) of the *"Terms and Conditions of the Covered* |

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| | *Bonds"* on page 136; |
| **Supplemental Liquidity Available Amount** | The meaning given in *"Summary of the Principal Documents"* on page 226; |
| **Supplemental Liquidity Event** | The meaning given in *"Summary of the Principal Documents"* on page 248; |
| **Supplemental Liquidity Reserve Amount** | The meaning given in *"Summary of the Principal Documents"* on page 226; |
| **Supplemental Liquidity Reserve Ledger** | The ledger of such name maintained by the Cash Manager pursuant to the Cash Management Agreement to record the credits and debits of monies available from the proceeds of sales of Selected Loans sold with the aim to fund or replenish such ledger up to the Supplemental Liquidity Reserve Amount; |
| **Swap Agreements** | The Covered Bond Swap Agreements together with the Interest Swap Agreement, and each a **Swap Agreement**; |
| **Swap Collateral** | At any time, any asset (including, without limitation, cash and/or securities) which is paid or transferred by a Swap Provider to the LLP as collateral to secure the performance by such Swap Provider of its obligations under the relevant Swap Agreement together with any income or distributions received in respect of such asset and any equivalent of such asset into which such asset is transformed; |
| **Swap Collateral Available Amounts** | On termination of a Swap Agreement, the amount of Swap Collateral which under the terms of the relevant Swap Agreement and following termination thereof may be applied at that time in satisfaction of the relevant Swap Provider's obligations to the LLP to pay any termination amount owing by such Swap Provider, to the extent such amount remains unpaid, and to the extent that such obligations relate to payments to be made in connection with the Pre-Acceleration Revenue Priority of Payments, the Pre-Acceleration Principal Priority of Payments, the Post-Enforcement Priority of Payments or the Guarantee Priority of Payments, as applicable; |
| **Swap Provider Default** | The occurrence of an Event of Default or Termination Event (each as defined in each of the Swap Agreements) where the relevant Swap Provider is the Defaulting Party or the sole Affected Party (each as defined in relevant Swap Agreement), as applicable, other than a Swap Provider Downgrade Event; |
| **Swap Provider Downgrade Event** | The occurrence of an Additional Termination Event or an Event of Default (each as defined in the relevant Swap Agreement) following a failure by the Swap Provider to comply with the requirements of the ratings downgrade provisions set out in the relevant Swap Agreement; |
| **Swap Providers** | Covered Bond Swap Providers and the Interest Swap Provider, and each a Swap Provider; |
| **Swaps** | The Covered Bond Swaps together with the Interest Rate Swaps; |
| **Talons** | The meaning given in *"Terms and Conditions of the Covered Bonds"* on page 101; |
| **TARGET2** | The Trans-European Automated Real-Time Gross Settlement Express Transfer |

payment system which utilises a single shared platform and which was launched on 19 November 2007, or any successor thereto;

**Temporary Global Covered Bond** The meaning given in *"Form of the Covered Bonds"* on page 87;

**Term Advance** Each term advance made by the Issuer to the LLP from the proceeds of Covered Bonds pursuant to the Intercompany Loan Agreement;

**Third Party Amounts** Each of:

(a) payments of insurance premiums, if any, due to the Seller in respect of any Seller arranged insurance policy to the extent not paid or payable by the Seller (or to the extent such insurance premiums have been paid by the Seller in respect of any Further Advance which is not purchased by the Seller, to reimburse the Seller);

(b) amounts under an unpaid direct debit which are repaid by the Seller to the bank making such payment if such bank is unable to recoup that amount itself from its customer's account;

(c) payments by the Borrower of any fees (including Early Repayment Fees) and other charges which are due to the Seller; and

(i) any amounts due or arising from any overpayment by any person or arising from any reimbursement by any person of any such overpayment (including, for the avoidance of doubt, where arising from the failure of a direct debit);

(ii) (subject to any right to refuse or withhold payment or of set-off that has arisen by reason of the Borrower's breach of the terms of the relevant Mortgage or Loan) any amount payable to a Borrower under the terms of the Mortgage or the Loan to which that Borrower is a party (other than a Further Advance);

(iii) any amounts owed to the Seller pursuant to Clause 6 (Trust of Monies) of the Mortgage Sale Agreement; and

(iv) any amount received from a Borrower for the express purpose of payment being made to a third party for the provision of a service (including giving insurance cover) to any of that Borrower or the Seller or the LLP,

which amounts may be paid daily from monies on deposit in any GIC Account or the Collateralised GIC Account, as applicable;

**Title Deeds** In relation to each Loan and its Related Security and the Property relating thereto, all conveyancing deeds and documents which make up the title to the Property and the security for the Loan and all searches and enquiries undertaken in connection with the grant by the Borrower of the related Mortgage;

**Transaction Account** The account designated as such in the name of the LLP held with the Account Bank and maintained subject to the terms of the Bank Account Agreement and the Deed of

Charge or such other account as may for the time being be in place with the prior consent of the Security Trustee and designated as such;

**Transaction Documents**

(a) Mortgage Sale Agreement

(b) each Scottish Declaration of Trust

(c) Servicing Agreement

(d) Asset Monitor Agreement

(e) Intercompany Loan Agreement

(f) LLP Deed

(g) Cash Management Agreement

(h) the Interest Rate Swap Agreement

(i) each Covered Bond Swap Agreement

(j) Guaranteed Investment Contract

(k) Stand-by Guaranteed Investment Contract

(l) Bank Account Agreement

(m) Stand-by Bank Account Agreement

(n) Corporate Services Agreement

(o) Deed of Charge (and any documents entered into pursuant to the Deed of Charge, including without limitation each Scottish Supplemental Charge and Scottish Sub-Security)

(p) Trust Deed

(q) Agency Agreement

(r) Programme Agreement (and any Dealer Accession Letter)

(s) each set of Final Terms (as applicable in the case of each issue of listed Covered Bonds subscribed pursuant to a subscription agreement)

(t) each Subscription Agreement (as applicable in the case of each issue of listed Covered Bonds subscribed pursuant to a subscription agreement)

(u) Collateral Agreement (if applicable)

(v) Master Definitions and Construction Agreement;

**Transfer Agent** The meaning given in *"Terms and Conditions of the Covered Bonds"* on page 101;

**Transfer** The meaning given in Condition 2.5 (Transfers of interests in Regulation S Global

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| **Certificate** | Covered Bonds) in *"Terms and Conditions of the Covered Bonds"* on page 104; |
| **Transfer Date** | Each of the First Transfer Date and the date of transfer of any New Portfolio to the LLP in accordance with the Mortgage Sale Agreement; |
| **True Balance** | For any Loan as at any given date, the aggregate (but avoiding double counting) of:<br>(a) the original principal amount advanced to the relevant Borrower and any further amount advanced on or before the given date to the relevant Borrower secured or intended to be secured by the related Mortgage; and<br>(b) the amount of any Re-draw made under any Flexible Loan or of any Further Draw made under a Flexible Advance secured or intended to be secured by the related Mortgage; and<br>(c) any interest, disbursement, legal expense, fee, charge, rent, service charge, premium or payment which has been property capitalised in accordance with the relevant Mortgage Conditions or with the relevant Borrower's consent and added to the amounts secured or intended to be secured by that Loan (including interest capitalised on any Re-draw under a Flexible Loan); and<br>(d) any other amount (including, for the avoidance of doubt, Accrued Interest and Arrears of Interest) which is due or accrued (whether or not due) and which has not been paid by the relevant Borrower and has not been capitalised in accordance with the relevant Mortgage Conditions or with the relevant Borrower's consent but which is secured or intended to be secured by that Loan,<br>as at the end of the London Business Day immediately preceding that given date less any repayment or payment of any of the foregoing made on or before the end of the London Business Day immediately preceding that given date and excluding any retentions made but not released and any Additional Loan Advances committed to be made but not made by the end of the London Business Day immediately preceding that given date; |
| **Trust Deed** | The meaning given in *"Terms and Conditions of the Covered Bonds"* on page 100; |
| **UCITS Directive** | The meaning given on page 276; |
| **Unfair Practices Directive** | Directive 2005/29/EC of the European Parliament and of the Council concerning unfair business-to-consumer commercial practices; |
| **UK Banking Act** | Banking Act 2009; |
| **UK Listing Authority** | UK Listing Authority under Part VI of the FSMA 2000; |
| **UTCCR** | Unfair Terms in Consumer Contracts Regulations 1999 and the Unfair Terms in Consumer Contracts Regulations 1994, as amended; |

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| **Valuation Report** | The valuation report or reports for mortgage purposes, in the form of one of the pro-forma contained in the Standard Documentation, obtained by the Seller from a Valuer in respect of each Property or a valuation report in respect of a valuation made using a methodology which would be acceptable to a Reasonable, Prudent Mortgage Lender and which has been approved by the relevant officers of the Seller; |
| **Valuer** | An Associate or Fellow of the Royal Institute of Chartered Surveyors or the Incorporated Society of Valuers and Auctioneers who was at the relevant time either a member of a firm which was on the list of Valuers approved by or on behalf of the Seller from time to time or an Associate or Fellow of the Royal Institute of Chartered Surveyors or the Incorporated Society of Valuers and Auctioneers employed in-house by the Seller acting for the Seller in respect of the valuation of a Property; |
| **Yield Shortfall Test** | The test as to whether the aggregate amount of interest on the Loans and amounts under the Interest Rate Swap Agreement to be received by the LLP during the relevant LLP Payment Period would give a yield of at least LIBOR plus 0.15%; |
| **Zero Coupon Covered Bonds** | Covered Bonds which will be offered and sold at a discount to their nominal amount and which will not bear interest. |

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