



Nationwide Building Society

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

U.S.\$25,000,000,000 European Note Programme

On 17 April 1991 Nationwide Building Society entered into a U.S.\$750,000,000 Note Programme (as subsequently amended, the **Programme**). This Base Prospectus supersedes all previous prospectuses and offering circulars relating to the Programme and supplements thereto. Any Notes issued under the Programme on or after the date hereof are issued subject to the provisions set out herein. This does not affect any Notes issued prior to the date hereof.

Pursuant to the Programme, Nationwide Building Society (the **Issuer** or the **Society**) may from time to time issue one or more Tranches (as defined herein) of Notes (the **Notes**, which expression shall include Ordinary Notes, Deposit Notes and Subordinated Notes (each as defined in the Trust Deed (as defined herein))).

The maximum aggregate nominal amount of all Notes from time to time outstanding under the Programme (excluding Deposit Notes) will not exceed U.S.\$25,000,000,000 (or its equivalent in other currencies calculated as described herein and subject to increase as provided herein).

The Notes may be issued from time to time to one or more of the Dealers (each person so specified on page 6 being a **Dealer** and together the **Dealers**, which expression shall include any additional Dealer appointed under the Programme from time to time and which appointment may be for the issue of a specific Tranche of Notes or on an ongoing basis).

An investment in Notes issued under the Programme involves certain risks. For a discussion of these risks see “Risk Factors”.

Application has been made to the Financial Conduct Authority (the **FCA**) under Part VI of the Financial Services and Markets Act 2000, as amended (the **UK Listing Authority**) for Ordinary Notes and Subordinated Notes 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 Notes to be admitted to trading on the London Stock Exchange's Regulated Market. References in this Base Prospectus to Notes being **listed** (and all related references) shall mean that such Notes have been admitted to trading on the London Stock Exchange's Regulated Market and have been admitted to the Official List. The London Stock Exchange's Regulated Market is a regulated market for the purposes of the Markets in Financial Instruments Directive (Directive 2004/39/EC).

Notice of the aggregate nominal amount of, interest (if any) payable in respect of, the issue price of, the issue date and maturity date of, and certain other information which is applicable to, each Tranche of Notes will be set forth in a final terms document (the **Final Terms**) applicable to such Tranche which, with respect to Notes to be listed on the London Stock Exchange, will be delivered to the UK Listing Authority and the London Stock Exchange prior to the date of issue of such Tranche. Copies of Final Terms in relation to Notes to be listed on the London Stock Exchange will also be published on the website of the London Stock Exchange through a regulatory information service.

The Issuer has a long-term/short-term/subordinated debt rating of Aa3/P-1/Baa1 by Moody's Investors Service Limited (**Moody's**), A/A-1/BBB by Standard & Poor's Credit Market Services Europe Limited (**S&P**) and A+/F1/A- by Fitch Ratings Ltd. (**Fitch**). Moody's, S&P and Fitch are each established in the European Union (**EU**) and registered under Regulation (EC) No. 1060/2009 (as amended) (the **CRA Regulation**). Each of Moody's, S&P and Fitch is included in the list of credit rating agencies published by the European Securities and Markets Authority (**ESMA**) on its website in accordance with the CRA Regulation. Tranches of Notes issued pursuant to the Programme may be rated or unrated. Where a Tranche of Notes is rated, such rating will be disclosed in the Final Terms and will not necessarily be the same as the ratings assigned to the Programme. A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.

Arranger
BofA Merrill Lynch
Dealers

Barclays
BofA Merrill Lynch
Commerzbank
Daiwa Capital Markets Europe
Goldman Sachs International
J.P. Morgan
NatWest Markets
RBC Capital Markets

BNP PARIBAS
Citigroup
Credit Suisse
Deutsche Bank
HSBC
Morgan Stanley
Nomura
Société Générale Corporate & Investment Banking

UBS Investment Bank

IMPORTANT INFORMATION

This Base Prospectus comprises a base prospectus for the purposes of Article 5.4 of the Prospectus Directive. When used in this Base Prospectus, **Prospectus Directive** means Directive 2003/71/EC (as amended), and includes any relevant implementing measure in a relevant Member State of the European Economic Area.

The Issuer accepts responsibility for the information contained in this Base Prospectus and the Final Terms for each Tranche of Notes issued under the Programme. To the best of the knowledge of the Issuer (which has taken all reasonable care to ensure that such is the case) the information contained in this Base Prospectus and the Final Terms is in accordance with the facts and does not omit anything likely to affect the import of such information.

This Base Prospectus is to be read in conjunction with any supplements hereto, all documents which are deemed to be incorporated herein by reference (see “*Documents Incorporated by Reference*” on page 47) and any Final Terms. This Base Prospectus shall be read and construed on the basis that such documents are incorporated in and form part of this Base Prospectus.

No representation, warranty or undertaking, express or implied, is made by any Dealer or the Trustee, and to the fullest extent permitted by law, the Dealers and the Trustee disclaim all responsibility or liability which they might otherwise have, as to the accuracy or completeness of the information contained in this Base Prospectus or any other financial statement or any further information supplied in connection with the Programme or the Notes or their distribution. The statements made in this paragraph are made without prejudice to the responsibility of the Issuer under the Programme.

Neither the Dealers nor the Trustee (as defined below) accept any liability whether arising in tort or contract or otherwise in relation to the information contained in this Base Prospectus or any other information provided by the Issuer in connection with the Programme.

No person has been authorised to give any information or to make any representation not contained herein and any information or representation not contained herein must not be relied upon as having been authorised by the Issuer, the Dealers or the Trustee.

None of this Base Prospectus, any financial statements and/or any further information supplied in connection with the Programme or the Notes is intended to provide the basis of any credit or other evaluation or should be considered as a recommendation or constituting an offer or invitation by or on behalf of the Issuer, any of the Dealers or the Trustee that any recipient of this Base Prospectus or any financial statements or any further information supplied in connection with the Notes should subscribe for or purchase any of the Notes. Each investor contemplating purchasing Notes should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Issuer.

Neither the delivery of this Base Prospectus nor any subscription, sale or purchase of any Notes shall at any time imply that there has been no change in the affairs of the Issuer since the date hereof or that the information contained herein concerning the Issuer is correct at any time subsequent to the date hereof or that any other financial statements or any further information supplied in connection with the Notes is correct as of any time subsequent to the date indicated in the document containing the same. The Dealers and the Trustee expressly do not undertake to review the financial condition or affairs of the Issuer and its subsidiaries during the life of the Programme. Investors should review, *inter alia*, the most recently published Annual Report and Accounts of the Issuer when deciding whether or not to purchase any of the Notes.

IMPORTANT – EEA RETAIL INVESTORS – If the Final Terms in respect of any Notes includes a legend entitled “Prohibition of Sales to EEA Retail Investors”, the Notes, from 1 January 2018, are not intended to be offered, sold or otherwise made available to and, with effect from such date, should not be offered, sold or otherwise made available to any retail investor in the European Economic Area (**EEA**). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (**MiFID II**); (ii) a customer within the meaning of Directive 2002/92/EC (**IMD**), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in the Prospectus Directive. Consequently no key information document required by Regulation (EU) No 1286/2014 (the **PRIIPs Regulation**) for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

None of this Base Prospectus, any financial statements and/or any further information supplied in connection with the Programme or the Notes constitutes an offer of, or an invitation by or on behalf of the Issuer, the Dealers or the Trustee to subscribe for or purchase, any of the Notes.

The distribution of this Base Prospectus and the offer, distribution or sale of Notes may be restricted by law in certain jurisdictions. The Issuer, the Dealers and the Trustee do not represent that this document may be lawfully distributed, or that the Notes 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 Dealers or the Trustee which is intended to permit a public offering of the Notes outside the European Economic Area or distribution of this document in any jurisdiction where action for that purpose is required. Accordingly, the Notes may not be offered or sold, 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 and the Dealers have represented that all offers and sales by them will be made on such terms. Persons into whose possession this Base Prospectus or any Notes come must inform themselves about, and observe, any such restrictions. In particular, there are restrictions on the distribution of this Base Prospectus and the offer or sale of Notes in the United States, the European Economic Area (including the United Kingdom) and Japan (see “*Subscription and Sale*” on pages 114-116).

The Notes have not been and will not be registered under the United States Securities Act of 1933, as amended (the **Securities Act**) and are subject to U.S. tax law requirements. Subject to certain exceptions, Notes may not be offered, sold or delivered, directly or indirectly, within the United States or to U.S. persons as defined in Regulation S under the Securities Act (see “*Subscription and Sale*”).

In this Base Prospectus, unless otherwise specified or the context otherwise requires, references to the **Act** are to the Building Societies Act 1986, 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.

Terms used in this Base Prospectus, shall unless otherwise defined or the context otherwise requires, have the same meanings as are given to them in the Act or, as the case may be, the Rules of the Society (the **Rules**) or the Memorandum of the Society (the **Memorandum**).

In this Base Prospectus, references to **£, pounds** and **Sterling** are to pounds sterling, references to **U.S.\$** and **U.S. Dollars** are to United States dollars, references to **Yen** and **¥** are to Japanese Yen and references to **€** or **euro** are to the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty on the Functioning of the European Union, as amended.

The Notes may not be a suitable investment for all investors. Each potential investor in the Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor may wish to consider, either on its own or with the help of its financial and other professional advisers, whether it:

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

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 (i) Notes are legal investments for it, (ii) Notes can be used as collateral for various types of borrowing and (iii) other restrictions apply to its purchase or pledge of any Notes. Financial institutions should consult their legal advisors or the appropriate regulators to determine the appropriate treatment of Notes under any applicable risk-based capital or similar rules.

STABILISATION

In connection with the issue of any Tranche of Notes, one or more relevant Dealers acting as the Stabilisation Manager(s) (or persons acting on behalf of any Stabilisation Manager(s)) may over-allot Notes or effect transactions with a view to supporting the market price of the Notes of the Series (as defined below) of which such Tranche forms part at a level higher than that which might otherwise prevail. However, stabilisation may not necessarily occur. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the relevant Tranche of Notes is made and, if begun, may cease at any time, but it must end no later than the earlier of 30 days after the issue date of the relevant Tranche of Notes and 60 days after the date of the allotment of the relevant Tranche of Notes. Any stabilisation action or over-allotment must be conducted by the relevant Stabilisation Manager(s) (or persons acting on behalf of any Stabilisation Manager(s)) in accordance with all applicable laws and rules.

FORWARD LOOKING STATEMENTS

Some statements in this Base Prospectus may be deemed to be forward looking statements. Forward looking statements include statements concerning the Issuer's plans, objectives, goals, strategies, future operations and performance and the assumptions underlying these forward looking statements. When used in this Base Prospectus, words such as "anticipates", "estimates", "expects", "believes", "intends", "plans", "aims", "seeks", "may", "will", "should" and any similar expressions generally identify forward looking statements. Forward looking statements are based on the current view of the Issuer's management with respect to future events and financial performance. Although the Issuer believes that the expectations, estimates and projections reflected in its forward looking statements are reasonable as at the date of this Base Prospectus, the Issuer's actual results of operation may vary materially from those expected, estimated or predicted.

Any forward looking statements contained in this Base Prospectus speak only as at the date of this Base Prospectus. Without prejudice to any requirements under applicable laws and regulations, the Issuer expressly disclaims any obligation or undertaking to disseminate after the date of this Base Prospectus any updates or revisions to any forward looking statements contained in it to reflect any change in expectations or any change in events, conditions or circumstances on which any such forward looking statement is based.

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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 Notes, the applicable Final Terms. The Issuer and any relevant Dealer may agree that Notes shall be issued in a form other than that contemplated in the Terms and Conditions, in which event, a new Base Prospectus or a drawdown prospectus will be published.

This Overview constitutes a general description of the Programme for the purposes of Article 22.5(3) of Commission Regulation (EC) No 809/2004 implementing the Prospectus Directive.

Words and expressions defined in “Form of the Notes” and “Terms and Conditions of the Notes” shall have the same meanings in this Overview. References in this Base Prospectus to the “Group” are references to Nationwide Building Society and its subsidiaries, all of which are consolidated, unless the context otherwise requires.

Issuer: Nationwide Building Society (the **Issuer**). The Issuer is the largest building society in the United Kingdom, based on total assets of £222 billion as at 4 April 2017.

Risk Factors: Certain factors may affect the Issuer's ability to fulfil its obligations under Notes issued under the Programme. These are set out under “*Risk Factors*” below and include (i) cyclicalities in the United Kingdom residential housing market, (ii) the competitive nature of the United Kingdom personal financial services markets in which the Society operates, (iii) failure by the Society to control its financial risks may result in the Issuer being unable to manage its business and (iv) risks associated with the United Kingdom personal finance sector may adversely affect the business of the Society. In addition, there are certain factors which are material for the purpose of assessing the market risks associated with Notes issued under the Programme. These are set out under “*Risk Factors*” below and include certain risks relating to the structure or particular Series of Notes and certain market risks.

Dealers:

- Barclays Bank PLC
- BNP Paribas
- Citigroup Global Markets Limited
- Commerzbank Aktiengesellschaft
- Credit Suisse Securities (Europe) Limited
- Daiwa Capital Markets Europe Limited
- Deutsche Bank AG, London Branch
- Goldman Sachs International
- HSBC Bank plc
- J.P. Morgan Securities plc
- Merrill Lynch International
- Morgan Stanley & Co. International plc
- Nomura International plc
- RBC Europe Limited
- Société Générale
- The Royal Bank of Scotland plc (trading as NatWest Markets)
- UBS Limited

Issuing and Principal Paying Agent:	Citibank, N.A., London Branch
Amount:	Up to U.S.\$25,000,000,000 nominal amount outstanding at any time (or its equivalent in other currencies as described herein) excluding Deposit Notes. The Issuer may increase the amount of the Programme in accordance with the terms of the Programme Agreement.
Distribution:	Notes may be distributed by way of private or public placement and in each case on a syndicated or non-syndicated basis.
Currencies:	Subject to any applicable legal or regulatory restrictions, Notes may be denominated in Sterling, euro, U.S. dollars, Yen or any other currency, as may be agreed from time to time by the Issuer, the relevant Dealer(s), the Agent and the Trustee. Each issue of Notes 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.
Denominations:	The Notes will be issued in such denominations as may be agreed between the Issuer and the relevant Dealer, save that (i) the minimum denomination of each Note will be such amount 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 relevant Specified Currency, and (ii) the minimum denomination of each Note will be not less than €100,000 (or, if the Notes are denominated in a currency other than euro, the equivalent amount in such currency).
Maturities:	Notes may have any maturity as indicated in the applicable Final Terms, save that (a) in the case of Subordinated Notes, the minimum maturity will be five years, (b) in the case of Deposit Notes, the maximum maturity will be five years less one day, and (c) notwithstanding (a) and (b) above, in any case such other maturity as may be required from time to time by the relevant monetary authority or any laws or regulations applicable to the relevant currency.
Issue Price:	Notes may be issued at par or at a premium or discount to par and will be issued on a fully-paid basis.
Form:	The Notes will be issued in bearer form.
Terms of the Notes:	The final terms of the Notes will be specified in the applicable Final Terms, which must be read together with the Terms and Conditions of the Notes set out in this Base Prospectus (as amended, if applicable). The following types of Note may be issued: (i) Notes which bear interest at a fixed or floating rate; (ii) Notes which bear interest at the initial rate specified in the applicable Final Terms, which may be reset thereafter; and

(iii) Notes which do not bear interest.

Interest: Interest periods, rates of interest and the terms of and/or amounts payable on redemption may differ depending on the Notes being issued and such terms will be specified in the applicable Final Terms.

Redemption: The Final Terms relating to each Tranche of Notes will indicate either that the Notes cannot be redeemed prior to their stated maturity (other than for taxation reasons or following an Event of Default or, if applicable, in the case of Subordinated Notes, following the occurrence of a Regulatory Event) or that such Notes will be redeemable at the option of the Issuer and/or the Noteholders upon giving notice to the Noteholders or the Issuer, as the case may be, on a date or dates specified prior to such stated maturity and at a price or prices and on such terms as are indicated in the applicable Final Terms.

Subject to certain exceptions, Subordinated Notes may not be redeemed prior to five years from the issue date thereof.

Denomination of Definitive Notes: So long as any Notes are represented by a temporary global Note or a permanent global Note and the relevant clearing system(s) so permit, the Notes shall be tradeable only in principal amounts of at least the Specified Denomination (or, if more than one Specified Denomination, the lowest Specified Denomination) provided in the applicable Final Terms and integral multiples of the Calculation Amount specified in the applicable Final Terms in excess thereof.

Taxation: All payments in respect of the Notes will be made without deduction for or on account of United Kingdom withholding taxes, unless the withholding is required by law. In that event, the Issuer will (subject to certain exceptions as set out in Condition 10) pay such additional amounts (i) in the case of Ordinary Notes or Deposit Notes, in respect of interest or principal, or (ii) in the case of Subordinated Notes, in respect of interest only, as will result in Noteholders receiving such amounts as they would have received in respect of the Notes had no such withholding been required.

For the avoidance of doubt, in the case of Subordinated Notes, the Issuer will not pay any additional amounts in respect of principal (including premium and other payments akin to principal, as more fully described in the Terms and Conditions).

Status of the Notes (other than Subordinated Notes): The Notes (other than Subordinated Notes) will constitute direct, unconditional and unsecured obligations of the Issuer and will rank (subject to any applicable statutory exceptions or preferences and the provisions of Condition 4) equally with all other unsecured and unsubordinated obligations of the Issuer.

Status of the Subordinated Notes: The Subordinated Notes will constitute direct and unsecured obligations of the Issuer and will rank *pari passu* and without any preference among themselves. The claims in respect of principal, interest and any other

amount (including, without limitation, any damages awarded for breach of the Issuer's obligations) in respect of Subordinated Notes and any relative Coupons will, in the event of the winding up or dissolution of the Issuer, be subordinated in the manner provided in the Trust Deed and as specified in Condition 3.

Cross Default: The Notes (other than Subordinated Notes) will contain a cross default clause in respect of indebtedness for moneys borrowed or raised by the Issuer.

Negative Pledge: The Notes (other than Subordinated Notes) will contain a negative pledge prohibiting (subject to the exception set out therein) the Issuer or any Subsidiary from creating security to secure any Loan Stock of the Issuer or any Subsidiary.

Rating: Series of Notes issued under the Programme may be rated or unrated. Where a Series of Notes is rated, such rating will be disclosed in the applicable Final Terms and will not necessarily be the same as the ratings assigned to the Programme. A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.

Events of Default for Notes other than Subordinated Notes: The terms of the Notes other than Subordinated Notes will contain, amongst others, the following events of default:

- (a) default in payments of any principal or interest due in respect of the Notes, continuing for a specified period of time;
- (b) non-performance or non-observance by the Issuer of any of its other obligations under the Terms and Conditions or the Trust Deed continuing for a specified period of time;
- (c) default by the Issuer or any of its Principal Subsidiaries relating to present or future indebtedness in an amount of £40,000,000 or more;
- (d) any distress, execution or similar legal process of a claim of £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;
- (e) events relating to the administration, liquidation, insolvency or winding up of the Issuer or any of its Principal Subsidiaries.

Events of Default Subordinated Notes: The Events of Default and enforcement rights in respect of Subordinated Notes are restricted.

If default is made for a period of seven days or more in the payment of any principal due on any Subordinated Notes or for a period of 14 days or more in the payment of any interest due on any Subordinated Notes, the Trustee

may institute proceedings for the winding up of the Issuer in England (but not elsewhere) and prove in such winding up but may take no other action in respect of such default.

In the event of a winding up or dissolution of the Issuer (other than an Excluded Dissolution) the Trustee may give notice to the Issuer accelerating the Notes and may prove in such winding up or dissolution in respect of the Notes (such claim being subordinated as provided in Condition 3).

- Listing:** Application has been made for Ordinary Notes and the Subordinated Notes issued under the Programme to be listed on the London Stock Exchange.
- Use of Proceeds:** The net proceeds from each issue of Notes will be applied by the Issuer for the general purposes of the Issuer, including without limitation, making mortgage advances on private residential property located in the United Kingdom and making a profit.
- Governing Law:** The Notes and any non-contractual obligations arising out of or in connection with the Notes will be governed by, and shall be construed in accordance with, English law.
- Selling Restrictions:** There are selling restrictions in relation to the offering and sale of a particular Tranche of Notes. See "*Subscription and Sale*".
- United States Selling Restrictions:** Regulation S, Category 2. TEFRA C, TEFRA D or TEFRA not applicable, as specified in the applicable Final Terms.

RISK FACTORS

The Issuer believes that the following factors may affect its ability to fulfil its obligations under Notes issued under the Programme. Most of these factors are contingencies which may or may not occur and the Issuer is not in a position to express a view on the likelihood of any such contingency occurring.

In addition, factors which are material for the purpose of assessing the market risks associated with Notes issued under the Programme are also described below.

The Issuer believes that the factors described below represent the principal risks inherent in investing in Notes issued under the Programme, but the inability of the Issuer to pay interest, principal or other amounts on or in connection with any Notes may occur for other reasons which may not be considered significant risks by the Issuer based on information currently available to it or which it may not currently be able to anticipate. There is a wide range of factors which individually or together could result in the Issuer becoming unable to make all payments due in respect of the Notes. It is not possible to identify all such factors or to determine which factors are most likely to occur, as the Issuer may not be aware of all relevant factors and certain factors which it currently deems not to be material may become material as a result of the occurrence of events outside the Issuer's control. 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.

FACTORS WHICH ARE MATERIAL FOR THE PURPOSE OF ASSESSING THE MARKET RISKS ASSOCIATED WITH NOTES ISSUED UNDER THE PROGRAMME

The UK Banking Act 2009 confers substantial powers on a number of UK authorities designed to enable them to take a range of actions in relation to UK deposit-taking institutions which are considered to be at risk of failing. The exercise of any of these actions in relation to the Issuer or any Notes could materially adversely affect the value of any Notes and/or the rights of Noteholders

Under the UK Banking Act 2009 as amended (the **Banking Act**), substantial powers are granted to HM Treasury, the Bank of England acting as the Prudential Regulation Authority through its Prudential Regulation Committee (the **PRA**), the FCA and the Bank of England (together, the **Authorities**) as part of a special resolution regime (the **SRR**). These powers enable the Authorities to deal with, amongst other entities, a UK bank or building society (each a **relevant entity**) in circumstances in which the Authorities consider that the resolution conditions are satisfied, through a series of stabilisation options.

The stabilisation options which may be commenced by the Authorities are: (i) private sector transfer of all or part of the business of the relevant entity; (ii) transfer of all or part of the business of the relevant entity to a “bridge bank” established by the Bank of England; (iii) transfer to an asset management vehicle; (iv) temporary public ownership (nationalisation) of the relevant entity as well as powers to convert a building society into a company in connection with a bail-in; and (v) a bail-in tool which permits the Bank of England to (a) cancel, modify or convert the form of a liability owed by a relevant entity or provide that a contract under which, amongst others, a relevant entity has a liability is to have effect as if a specified right had been exercised under it or (b) transfer securities issued by a relevant entity to a bail-in administrator.

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

The BRRD (as defined below) also provides for a Member State as a last resort, after having assessed and used the above resolution tools to the maximum extent practicable 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.

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

Accordingly, the use of any stabilisation powers in respect of the Issuer may have an adverse effect on the Issuer’s ability to perform its obligations in respect of Notes issued under the Programme, and the use of any stabilisation powers and/or (in the case of Subordinated Notes) the capital write-down tool in respect of Notes themselves may impact the market price of the Notes and/or may adversely affect the rights of Noteholders in respect of their Notes. These risks are discussed further in the following paragraphs.

The SRR and/or capital write-down tool may be triggered prior to insolvency of the Issuer

The purpose of the stabilising options and the capital write-down powers 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, which 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 Noteholders of their decision to exercise any resolution power. Therefore, Noteholders may not be able to anticipate a potential exercise of any such powers nor the potential effect of any exercise of such powers on the Issuer or the Notes.

Various actions may be taken in relation to the Notes without the consent of the Noteholders

If the Issuer were made subject to the SRR, HM Treasury or the Bank of England may exercise extensive share transfer powers (applying to a wide range of securities) and property transfer powers (including powers for partial transfers of property, rights and liabilities) in respect of the Issuer and/or its securities (subject to certain protections).

Exercise of these powers could involve taking various actions in relation to any securities issued by the Issuer (including any Notes issued under the Programme) without the consent of the Noteholders, including (among other things):

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

The relevant Authorities may exercise the bail-in tool under the Banking Act to recapitalise a relevant entity in resolution by allocating losses to (amongst others) its capital providers and unsecured creditors (which would include Noteholders) in a manner that (i) ought to respect the hierarchy of claims in an ordinary insolvency and (ii) is consistent with shareholders and creditors not receiving a less favourable treatment than they would have received in ordinary insolvency proceedings of the relevant entity (known as the “no creditor worse off” safeguard). Accordingly, the ranking of Notes in insolvency can be expected to have a direct impact on the relative losses imposed on Noteholders in a resolution. For further information with respect to the ranking of Notes, see *“The Subordinated Notes are subordinated to most of the Issuer’s liabilities”* and *“Certain liabilities of the Issuer will be preferred by law in the event of a winding-up of the Issuer”* below.

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

The taking of any such actions could materially adversely affect the rights of Noteholders, the price or value of their investment in the Notes, the liquidity and/or volatility of any market in the Notes and/or the ability of the Issuer to satisfy its obligations under the Notes. In such circumstances, Noteholders may have a claim for compensation under one of the compensation schemes existing under, or contemplated by, the Banking Act. However, such compensation will be limited to the return the Noteholder might otherwise have received on an insolvency of the Issuer (less the value already received through resolution), and there can be no assurance that Noteholders will have such a claim or, if they do, that they would thereby recover compensation promptly or equal to any loss actually incurred.

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

Mandatory write-down and conversion of capital instruments may affect the Subordinated Notes

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

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

Subordinated Notes issued under the Programme may therefore be subject to write-down or conversion into equity on application of such powers (without requiring the consent of the holders thereof), which may result in the holders losing some or all of their investment. The “no creditor worse off” safeguard would not apply in relation to an application of such powers in circumstances where resolution powers are not also exercised.

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

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

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

The Notes may not be freely transferred

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

An active secondary market in respect of the Notes may never be established or may be illiquid and this would adversely affect the value at which an investor could sell his Notes

The Notes are new securities which may not be widely distributed and for which there is currently no active trading market. If the Notes are traded after their initial issuance, they may trade at a discount to their initial offering price, depending upon prevailing interest rates, the market for similar securities, general economic conditions and the financial condition of the Society. Although the Issuer has applied to admit the Notes issued from time to time to listing on the Official List and to admit them to trading on the London Stock Exchange's Regulated Market, the Issuer cannot guarantee that the Notes will be accepted for listing or admitted to trading or that an active trading market will develop. Accordingly, the Issuer cannot guarantee the development or liquidity of any trading market for the Notes. If a market for the Notes does develop, it may not be very liquid and may be sensitive to changes in financial markets. Therefore, investors may not be able to sell their Notes easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market. This may in particular be the case should the Issuer be in financial distress, which may result in any sale of the Notes having to be at a substantial discount to their principal amount.

Investors should note that, in view of prevailing and widely reported global credit market conditions (which continue at the date hereof) the secondary market for the Notes and for instruments of this kind may be illiquid. The Issuer cannot predict when these circumstances will change.

Investors who hold less than the minimum Specified Denomination may be unable to sell their Notes and may be adversely affected if definitive Notes are subsequently required to be issued

In relation to any issue of Notes which have denominations consisting of a minimum Specified Denomination plus one or more higher integral multiples of another smaller amount, it is possible that such Notes may be traded in amounts in excess of the minimum Specified Denomination that are not integral multiples of such minimum Specified Denomination. In such a case a holder who, as a result of trading such amounts, holds an amount which is less than the minimum Specified Denomination in his account with the relevant clearing system would not be able to sell the remainder of such holding without first purchasing a principal amount of Notes at or in excess of the minimum Specified Denomination such that its holding amounts to a Specified Denomination. Further, a holder who, as a result of trading such amounts, holds an amount which is less than the minimum Specified Denomination in his account with the relevant clearing system at the relevant time may not receive a definitive Note in respect of such holding (should definitive Notes be printed) and would need to purchase a principal amount of Notes at or in excess of the minimum Specified Denomination such that its holding amounts to a Specified Denomination.

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

The Subordinated Notes are subordinated to most of the Issuer's liabilities

If the Issuer is declared insolvent and a winding up is initiated the Issuer will, before it can make any payments on the Subordinated Notes, be required to pay in full the holders of its senior-ranking debt and meet its obligations to all of its retail member depositors and other creditors, other than its obligations (i) with respect to its Tier 1 Capital or Tier 2 Capital (each as defined in the terms and conditions of the Notes) or (ii) which otherwise rank, or are expressed to rank, *pari passu* with, or junior to, the claims in respect of the Subordinated Notes. Accordingly, on a winding-up of the Issuer, if the assets of the Issuer are insufficient to enable the Issuer to repay the claims of more senior-ranking creditors in full, the holders of Subordinated Notes will lose their entire investment in such Notes. If there are sufficient assets to enable the Issuer to pay the claims of senior-ranking creditors in full but insufficient assets to enable it to pay claims in respect of its obligations in respect of the Subordinated Notes and all other claims that rank *pari passu* with the Notes, holders of Subordinated Notes will lose some (which may be substantially all) of their investment in such Notes.

The ranking of Notes in a winding up can also be expected to have a direct impact on the relative losses imposed on Noteholders in a resolution of the Issuer or capital write-down under the Banking Act, as such resolution and capital write-down powers ought to be used in a manner that respects the hierarchy of claims in an ordinary insolvency - see “*The UK Banking Act 2009 confers substantial powers on a number of UK authorities designed to enable them to take a range of actions in relation to UK deposit-taking institutions which are considered to be at risk of failing. The exercise of any of these actions in relation to the Issuer or any Notes could materially adversely affect the value of any Notes and/or the rights of Noteholders*” above.

Certain liabilities of the Issuer will be preferred by law in the event of a winding-up of the Issuer

Prior to 1 January 2015, the claims of holders in respect of Ordinary Notes and Deposit Notes and the claims of other unsubordinated creditors of the Issuer would, in an insolvency of the Issuer, have ranked ahead of the claims of investing members of the Issuer as regards the principal and interest due on their share investments, including retail member share accounts (which, in turn, ranked ahead of subordinated liabilities) in the creditor hierarchy of the Issuer.

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

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

The Depositor Preference Order (i) extended the scope of preferential debts in respect of deposits and (ii) further aligned creditor hierarchy in United Kingdom building societies with the depositor preference requirements introduced in consequence of the EU Bank Recovery and Resolution Directive (Directive 2014/59/EU) (the **BRRD**) to ensure that any sums due to building society members in relation to their

investment shares in respect of deposits that do not benefit from the depositor preference requirements will nevertheless rank *pari passu* with all other (non-preferred) senior unsecured creditors.

These changes also have the effect of granting:

- (i) a first-ranking preference to those deposits and share accounts (or a relevant part thereof) of natural persons and micro, small and medium enterprises, which are actually protected by the Financial Services Compensation Scheme (the **FSCS**) (i.e. are eligible for protection and do not exceed the FSCS coverage limit (being, as at the date of this Base Prospectus, £85,000), which will rank equally with all other preferential debts; and
- (ii) a second-ranking preference to deposits and share accounts (or a relevant part thereof) of natural persons and micro, small and medium enterprises, which would be eligible for FSCS protection but for the fact that they either (a) exceed the coverage limit of the FSCS (being, as at the date of this Base Prospectus, £85,000) or (b) were made through a branch outside the EU. Such deposits and share accounts (or the relevant part thereof) will rank after the preferential debts referred to in paragraph (i) above but in priority to the claims of ordinary (i.e. non-preferred) unsecured creditors in the event of an insolvency.

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

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

- (a) the assets of the Issuer would be applied first to satisfying in full all claims in respect of those deposits and share accounts which enjoy preferential status (as described above) before any recovery would be made on claims in respect of Ordinary Notes or Deposit Notes (and the claims in respect of Ordinary Notes and Deposit Notes would rank *pari passu* with those deposits and share accounts (other than claims in respect of deferred shares) which are not afforded preferential status); and
- (b) no recovery would be made on claims in respect of Subordinated Notes unless and until the claims in respect of all deposit and share accounts (other than claims in respect of deferred shares), as well as claims in respect of Ordinary Notes and Deposit Notes and any other unsubordinated liabilities of the Issuer, have first been satisfied in full.

It is further expected that this ranking would be respected in the event that resolution action were to be taken in respect of the Issuer pursuant to the Banking Act (as further described above under “*The UK Banking Act 2009 confers substantial powers on a number of UK authorities designed to enable them to take a range of actions in relation to UK deposit-taking institutions which are considered to be at risk of failing. The exercise of any of these actions in relation to the Issuer or any Notes could materially adversely affect the value of any Notes and/or the rights of Noteholders*”).

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

If the Issuer has the right to redeem any Notes at its option, this may limit the market value of the Notes concerned and an investor may not be able to reinvest the redemption proceeds in a manner which achieves a similar effective return

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

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

In addition to any optional redemption right of the Issuer pursuant to Condition 6.4, Notes may also be redeemable at the option of the Issuer (subject, in the case of Subordinated Notes, to compliance with applicable prudential rules):

- (i) in the case of Ordinary Notes and Deposit Notes, if the Issuer becomes required to pay additional amounts in respect of the Notes under Condition 10 or to account to any taxing authority in the United Kingdom for any amount (other than any tax withheld or deducted from interest payable on the Notes) calculated by reference to any amount payable in respect of the Notes; or
- (ii) in the case of Subordinated Notes, following the occurrence of:
 - (a) a Tax Event, including if, as a result of a Tax Law Change, (A) the Issuer becomes required to pay additional amounts in respect of the Notes under Condition 10; (B) the Issuer is no longer, or will no longer be, entitled to claim a deduction in respect of any payments in respect of the Subordinated Notes in computing its taxation liabilities or the amount of such deduction is or will be materially reduced; (C) the Subordinated Notes are or will be prevented from being treated as loan relationships for United Kingdom tax purposes; or (D) the Issuer is not, or will not be, able to have losses or deductions set against any profits or gains, or profits or gains offset by any losses or deductions, of companies with which it is or would otherwise be so grouped for applicable United Kingdom tax purposes (whether under the group relief system current as at the date of issue of the Subordinated Notes or any similar system or systems having like effect as may from time to time exist); or
 - (b) a Regulatory Event, including a change in the regulatory classification of the Subordinated Notes after issue that results, or would be likely to result, in the entire principal amount of the Subordinated Notes (or, if so specified in the applicable Final Terms, any part thereof) being excluded from the Tier 2 Capital of the Issuer (whether on an individual or consolidated basis).

The circumstances in which any of the foregoing events may occur may be difficult to predict, and are based on factors outside the Issuer's control. Any proposed changes in law or regulation which may affect the Issuer's ability to redeem any Notes may impact the market price of such Notes, whether or not those proposed changes materialise, or if the relevant proposals are ultimately implemented in a form other than that originally proposed. If any events or circumstances occur such that the Issuer may elect to redeem the Notes, or if the market anticipates that any such events or circumstances may occur, the market value of the relevant Notes generally will not rise substantially above the price at which they can be redeemed, and this also may be true prior to any redemption period.

Limitation on gross-up obligation under the Subordinated Notes

The Issuer's obligation to pay additional amounts in respect of any withholding or deduction in respect of taxes under the terms of the Subordinated Notes applies only to payments of interest due and paid under the Subordinated Notes and not to payments of principal (which term, for these purposes, includes any premium, Final Redemption Amount, Early Redemption Amount, Optional Redemption Amount and Amortised Face Amount and any other amount (other than interest) payable in respect of Subordinated Notes). As such, the Issuer would not be required to pay any additional amounts under the terms of the Subordinated Notes to the extent any withholding or deduction applied to payments of principal. Accordingly, if any such withholding or deduction were to apply to any payments of principal under any Subordinated Notes, holders of such Subordinated Notes would, upon repayment or redemption of such Subordinated Notes, be entitled to receive only the net amount of such redemption or repayment proceeds after deduction of the amount required to be withheld. Therefore, holders may receive less than the full amount due under such Subordinated Notes, and the market value of such Subordinated Notes may be adversely affected as a result.

The value of Fixed Rate Notes may be adversely affected by movements in market interest rates

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

If the Issuer has the right or obligation to convert the interest rate on any Notes from a fixed rate to a floating rate, or vice versa, this may affect the secondary market and the market value of the Notes concerned

Fixed/Floating Rate Notes are Notes which may bear interest at a rate that converts from a fixed rate to a floating rate, or from a floating rate to a fixed rate. Where the Issuer has the right to effect such a conversion, this will affect the secondary market and the market value of the Notes since the Issuer may be expected to convert the rate when it is likely to produce a lower overall cost of borrowing. If the Issuer converts from a fixed rate to a floating rate in such circumstances, the spread on the Fixed/Floating Rate Notes may be less favourable than then prevailing spreads on comparable Floating Rate Notes tied to the same reference rate. In addition, the new floating rate at any time may be lower than the rates on other Notes. If the Issuer converts from a floating rate to a fixed rate in such circumstances, the fixed rate may be lower than then prevailing market rates. Furthermore, if any Notes are issued upon terms providing for automatic conversion of the interest rate on any Notes from a fixed rate to a floating rate or *vice versa*, this may also affect the secondary market and the market value of the Notes concerned if the rate or basis to which the interest rate is required to switch is lower than the interest rate prevailing up to such time.

The rate of interest of Reset Notes will be reset, which may affect the secondary market for and the market value of such Reset Notes

In the case of any Series of Reset Notes, the rate of interest on such Reset Notes will be reset by reference to the Reset Reference Rate, as adjusted for any applicable margin, on the reset dates specified in the relevant Final Terms. This is more particularly described in Condition 5.3. The reset of the rate of interest in accordance with such provisions may affect the secondary market for and the market value of such Reset Notes. Following any such reset of the rate of interest applicable to the Notes, the First Reset Rate of Interest or the Subsequent Reset Rate of Interest on the relevant Reset Notes may be lower than the Initial Rate of Interest, the First Reset Rate of Interest and/or any previous Subsequent Reset Rate of Interest.

The regulation and reform of benchmarks may adversely affect the value of Notes referencing such benchmarks

Interest rates and indices which are deemed to be “benchmarks” are the subject of recent national and international regulatory guidance and proposals for reform. Some of these reforms are already effective whilst others are still to be implemented. These reforms may cause such benchmarks to perform differently than in the past, to disappear entirely, or have other consequences which cannot be predicted. Any such consequence could have a material adverse effect on any Notes referencing such a benchmark.

Regulation (EU) 2016/1011 (the **Benchmarks Regulation**) was published in the Official Journal of the EU on 29 June 2016 and will apply from 1 January 2018. The Benchmarks Regulation applies to the provision of benchmarks, the contribution of input data to a benchmark and the use of a benchmark within the EU. It will, among other things, (i) require benchmark administrators to be authorised or registered (or, if non-EU-based, to be subject to an equivalent regime or otherwise recognised or endorsed) and (ii) prevent certain uses by EU supervised entities (such as the Issuers) of benchmarks of administrators that are not authorised or registered (or, if non-EU based, not deemed equivalent or recognised or endorsed).

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

More broadly, any of the international or national reforms, or the general increased regulatory scrutiny of benchmarks, could increase the costs and risks of administering or otherwise participating in the setting of a benchmark and complying with any such regulations or requirements. For example, the sustainability of the London interbank offered rate (**LIBOR**) has been questioned as a result of the absence of relevant active underlying markets and possible disincentives (including possibly as a result of regulatory reforms) for market participants to continue contributing to such benchmarks. On 27 July 2017, the United Kingdom Financial Conduct Authority announced that it will no longer persuade or compel banks to submit rates for the calculation of the LIBOR benchmark after 2021 (the **FCA Announcement**). The FCA Announcement indicated that the continuation of LIBOR on the current basis cannot and will not be guaranteed after 2021. The potential elimination of the LIBOR benchmark or any other benchmark, or changes in the manner of administration of any benchmark, could require an adjustment to the terms and conditions, or result in other consequences, in respect of any Notes referencing such benchmark (including but not limited to floating rate Notes whose interest rates reference LIBOR). Such factors may have the effect, amongst other things, of: (i) discouraging market participants from continuing to administer or contribute to a benchmark; (ii) triggering changes in the rules or methodologies used in the benchmark or (iii) leading to the disappearance of the benchmark. Any of the above changes or any other consequential changes as a result of international or national reforms or other initiatives or investigations, could have a material adverse effect on the value of and return on any Notes referencing a benchmark.

Investors should consult their own independent advisers and make their own assessment about the potential risks imposed by the Benchmarks Regulation reforms in making any investment decision with respect to any Notes referencing a benchmark.

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

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

If an investor holds Notes which are not denominated in the investor's home currency, he will be exposed to movements in exchange rates adversely affecting the value of his holding. In addition, the imposition of exchange controls in relation to any Notes could result in an investor not receiving payments on those Notes

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

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

The value of the Notes could be adversely affected by a change in English law or administrative practice

The terms and conditions of the Notes are based on English law in effect as at the date of this Base Prospectus. No assurance can be given as to the impact of any possible judicial decision or change to English law or administrative practice after the date of this Base Prospectus and any such change could materially adversely impact the value of any Notes affected by it.

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

The credit ratings of the Programme may not reflect the potential impact of all risks relating to the value of the Notes. In addition, real or anticipated changes in the credit ratings of the Issuer or the Notes will generally affect the market value of the Notes. These credit ratings could change due to a wide range of factors. Further, one or more credit rating agencies may from time to time release unsolicited credit ratings reports in relation to the Notes without the consent or knowledge of the Issuer. The Issuer does not have any control over such reports or analyses and any adverse credit rating of any Notes could adversely affect the value of Notes.

A credit rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.

In general, European regulated investors are restricted under the CRA Regulation from using credit ratings for regulatory purposes, unless such ratings are issued by a credit rating agency established in the European Union (EU) and registered under the CRA Regulation (and such registration has not been withdrawn or suspended), subject to transitional provisions that apply in certain circumstances whilst the registration application is pending. 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, subject to transitional provisions that apply in certain circumstances). The list of registered and certified rating agencies published by the 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 is set out on the cover of this Base Prospectus.

The terms and conditions of the Notes contain provisions which may permit their modification without the consent of all investors and confer significant discretions on the Trustee which may be exercised without the consent of the Noteholders and without regard to the individual interests of particular Noteholders

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

The Trust Deed also provides that a resolution in writing signed by or on behalf of the holders of not less than three-fourths in nominal amount of the relevant Notes for the time being outstanding, or consent given by way of electronic consents through the relevant clearing systems by or on behalf of the holders of not less than three-fourths in nominal amount of the relevant Notes for the time being outstanding, shall also be effective as an extraordinary resolution binding on all Noteholders, whether or not such Noteholders voted voting in favour of the relevant resolution.

The terms and conditions of the Notes also provide that the Trustee may, without the consent of Noteholders and without regard to the interests of particular Noteholders, agree to (i) any modification of, or to the waiver or authorisation of any breach or proposed breach of, any of the provisions of the Notes or (ii) the substitution of another company as principal debtor under any Notes in place of the Issuer, in the circumstances described in Condition 15.

FACTORS THAT MAY AFFECT THE ISSUER'S ABILITY TO FULFIL ITS OBLIGATIONS UNDER NOTES ISSUED UNDER THE PROGRAMME

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 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.

The Issuer has benefitted from generally positive economic conditions in each of the financial years ended 4 April 2017 and 4 April 2016, which have helped it grow its core lending and savings operations and also beneficially impacted its underlying impairment charges. The outlook for the UK economy is, however, uncertain, particularly in light of the UK's decision to leave the European Union.

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. The economic outlook is particularly uncertain following the referendum result for the UK to leave the European Union and the associated risks and uncertainties this may entail, including the uncertainty about the UK's future trading relationship. There is potential for activity and asset prices to decline should the labour market deteriorate markedly, or if strains in the financial system re-emerge and impair the flow of credit to the wider economy. Credit quality could be adversely affected by a renewed increase in unemployment. 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.

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

Conversely, a strengthened UK economic performance, or a rise in inflation pressures, may increase the possibility of a higher interest rate environment. In such a scenario other market participants might offer more competitive product pricing resulting in increased customer attrition. Under such conditions the Issuer may also experience an increase in its cost of funding, as described under “—*Changes to interest rates or monetary policy, whether by the UK, U.S. 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 reduce demand for new mortgages in the future. In addition, any increase in interest rates will increase mortgage payments, which could lead to higher retail loan losses. See further “—*The Issuer is exposed to future changes in UK house prices*” below.

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, as well as risks associated with the exit from the European Union. 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 CRE sector, bond markets, equity markets, counterparty risk, inflation, the

availability and cost of credit, transaction volumes in wholesale and retail markets including the availability and duration of funding in wholesale markets, the liquidity of the global financial markets and market interest rates, 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 “—*In connection with the withdrawal of the United Kingdom from the European Union, the Issuer faces risks to its business and legal uncertainties*”.

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 reduction in availability of funding or increase in capital markets funding costs or deposit rates could have a material adverse effect on the Issuer's interest margins, liquidity and profitability.

Risks that reduce the availability or increase the cost of the Issuer's sources of funding, such as UK government support initiatives, 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.

The UK government (the **Government**) continues to provide significant support to UK financial institutions, including the Bank of England's (**BoE**) Funding for Lending Scheme (**FLS**), which closed to mortgage lending on 31 January 2014 and the Term Funding Scheme (**TFS**) which opened on 19 September 2016 and is expected to close on 28 February 2018. Whilst the introduction of TFS has had a considerable impact on wholesale funding requirements, the Issuer will not be wholly absent from markets during this period and will maintain a minimum presence in core markets and currencies.

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 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 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, U.S. or other central banking authorities, could affect the financial condition of the Issuer's customers, clients and counterparties, which could in turn adversely affect the Issuer

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

Stimulus measures in the UK and elsewhere have been highly accommodative in recent years, including 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 per cent. deposit on a home with the Government lending up to 20.0 per cent. of the mortgage (up to 40.0 per cent. 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 BoE 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 BoE

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

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 further reduce incentives for the Issuer's customers to save, reducing its funding from deposits. Additionally, the low interest rate environment has and may continue to put pressure on the Issuer's net interest income and margins, as well as throughout the UK financial industry. The Issuer's business, financial performance, net interest income and margin may continue to be adversely affected by the low interest rate environment.

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

The value of the Issuer's mortgage portfolio is influenced by UK house prices, and a significant portion of the Issuer's revenue is derived from interest and fees paid on its mortgage portfolio. As at 4 April 2017, £138 billion, or 73.6 per cent., of the Issuer's loans and advances to customers were UK prime residential mortgages. A decline in house prices in the UK could lead to a reduction in the recovery value of real estate assets held as collateral in the event of a customer default, and could lead to higher impairment provisions, which could reduce the Issuer's capital and its ability to engage in lending and other income-generating activities. A significant increase in house prices over a short period of time could also have a negative impact on the Issuer by reducing the affordability of homes for buyers, which could lead to a reduction in demand for new mortgages. Sustained volatility in house prices could also discourage potential homebuyers from committing to a purchase, thereby limiting the Issuer's ability to grow its residential mortgage portfolio.

In addition, the Issuer also has a significant portfolio of buy-to-let mortgages, which amounted to £33 billion, or 17.7 per cent., of the Issuer's loans and advances to customers as at 4 April 2017. The buy-to-let market in the UK is predominantly dependent upon yields from rental income to support mortgage interest payments and capital gains from capital appreciation. Falling or flat rental rates and decreasing capital values, whether coupled with higher mortgage interest rates or not, could reduce the potential returns from buy-to-let properties. In addition, the Government has introduced legislation restricting the amount of income tax relief

that individual landlords can claim for residential property finance costs (such as mortgage interest) to the basic rate of tax, which may result in lower yields on buy-to-let property investments. This restriction is being introduced gradually with the first stage of changes applying from 6 April 2017. The Bank of England has also stated that it is considering increasing the regulatory capital requirements of banks holding buy-to-let mortgages on their balance sheets, although no specific proposals have been made. From 1 April 2016, a higher rate of stamp duty land tax (SDLT) applied to the purchase of additional properties (such as buy-to-let properties). The current additional rate is 3 per cent. above the previous SDLT rates.

These factors could make the purchase of buy-to-let properties and/or second homes a less viable investment proposition and reduce the demand for related mortgages.

The Government's intervention into the housing market, both directly through buyer assistance schemes and indirectly through the provision of liquidity to the banking sector under FLS and TFS, may also contribute to volatility in house prices. This could occur, for example, as a result of the sudden end to buyer assistance schemes, which could lead to a decrease in house prices, or due to their continuation, which would maintain excess funding liquidity in the mortgage market which has supported a low mortgage interest rate environment, and which could lead to inflation in house prices.

In addition, following the Mortgage Market Review, the FCA published new rules in April 2014. In April 2015, the FCA began a further thematic review on responsible lending in the mortgage sector on which it reported in May 2016. In December 2016 the FCA launched a market study into first charge residential mortgages, focusing on whether competition in the mortgage market sector is healthy and working to the benefit of consumers, including whether commercial arrangements between lenders, brokers and other third parties give rise to conflicts of interest or misaligned incentives to the detriment of consumers. It is possible that further changes may be made to the FCA's Mortgages and Home Finance: Conduct of Business sourcebook (**MCOB**) as a result of these and future reviews, studies and regulatory reforms. Any failure to comply with MCOB may entitle a borrower to claim damages for loss suffered or set-off the amount of the claim against monies owing under a regulated mortgage contract. Any such claim or set-off may reduce the amounts available to meet the payments due in respect of the Notes and the new rules may also negatively affect mortgage supply and demand.

The future impact of these initiatives on the UK housing market and other regulatory changes or Government programmes, such as the recent implementation of the European Union Mortgage Credit Directive (Directive 2014/17/EU), is difficult to predict. Volatility in the UK housing market occurring as a result of these changes, or for any other reason, could have a material adverse effect on the Issuer's business, financial condition and results of operations.

In connection with the withdrawal of the United Kingdom from the European Union, the Issuer faces risks to its business and legal uncertainties

On 23 June 2016 the UK held a referendum to decide on the UK's membership of the European Union. The UK vote was to leave the European Union and the Government invoked Article 50 of the Lisbon Treaty relating to withdrawal on 29 March 2017. Under Article 50, the Treaty on the European Union and the Treaty on the Functioning of the European Union cease to apply in the relevant state from the date of entry into force of a withdrawal agreement, or, failing that, two years after the notification of intention to withdraw, although this period may be extended in certain circumstances.

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 clearer, 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 the business of the Issuer.

In addition, 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 Issuer is subject and also therefore its financing availability and terms. Consequently no assurance can be given that the Issuer's operating results, financial condition and prospects would not be adversely impacted as a result.

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 Notes and/or the market value or liquidity of the Notes.

If Greece or another member state were to leave the Eurozone, or if the financial system in any member state were to suffer significant failures or stress, economic or financial instability or contagion could develop, which could adversely affect the Issuer

The past negotiations between Greece (on the one hand) and the International Monetary Fund, the European Central Bank and the European Commission (on the other hand) and the potential for continued difficulties Greece faces in remaining in the Eurozone could give rise to 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 exit of a member state from the European Monetary Union or significant failures or stress in the financial system in a member state 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 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.

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. For example, in the financial year ended 4 April 2017, the Issuer recorded an impairment loss in its income statement of £9 million in respect of its investment securities and in the financial year ended 4 April 2016, the Issuer recorded a negative available for sale reserve movement of £34 million in its statement of comprehensive income.

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 to residential mortgage backed securities and covered bonds collateralised on assets originated in weaker European countries. 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 Notes

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 Notes.

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 its access to the capital markets, or limit the range of counterparties willing to enter into transactions with it. The Issuer 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.

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 Notes, as well as the Issuer's credit ratings, borrowing costs and ability to fund itself.

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, weaker European countries 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 political and economic conditions in the UK, the Eurozone and elsewhere, and other adverse developments in the UK or global financial markets would cause its earnings and profitability to decline.

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 addition, recent technological advances have allowed new competitors to emerge both from within the traditional financial services arena and from outside it, and continued advances in technology may lead to further new entrants. Each of the main personal financial services markets in which the Issuer operates is mature and relatively slow growing, which intensifies pressure for firms to take market share from their competitors if they are to expand. This places elevated focus on price and service as the key differentiators, each of which carries a cost to the provider. If the Issuer is unable to match the efficiency of its competitors in these respects, it risks losing competitive advantages and being unable to attain its strategic growth aspirations.

In the UK, most major retail banks see the mortgage market as an attractive and high priority focus for expansion. This applies to both the prime mortgage market and the buy-to-let mortgage market. 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 is beginning to intensify and this trend could continue 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. A range of institutions see this product as the key to broader customer relationships and seek to make inroads into the large market share of the established 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. The Issuer also faces potential competition from new banks in the UK, such as TSB, from banking businesses developed by large non-financial companies, such as Tesco and Virgin Money, from "challenger bank" entrants, such as Metro Bank and Aldermore, and from fundamentally new entrants into the UK banking sector, such as peer-to-peer lending platforms. In addition, in May 2017 the FCA announced that it is undertaking a review of retail banking business models in order to enhance its understanding of the state of competition and conduct in retail banking markets. 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 (the **CMA**) undertook a market investigation into competition in the personal current accounts and small and medium-sized enterprises retail banking markets. The CMA published its final report on 9 August 2016 which identified features of the markets for the supply of personal current accounts, business current accounts and SME lending that are having an adverse effect on competition. The CMA decided on a comprehensive package of remedial measures which included, among other things, the introduction of requirements to prompt customers to review the services that they receive from their bank at certain trigger points and to promote public awareness of account switching. The remedial measures were to be implemented by orders, undertakings to be given by banks and further work by the FCA and HM Treasury, including further work on overdraft charges by the FCA, which remains under political scrutiny. On 2 February 2017, the CMA made the Retail Banking Market Investigation Order 2017 to implement the remedial measures. There can be no assurance that the Issuer's customer base, levels of deposits or market share will not be adversely affected by the remedial measures and other regulatory actions arising out of the investigation.

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 by no later than 2019 could reduce the distinctiveness of the building society model, which the Issuer considers to be a competitive advantage for it. 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 its business, financial condition and results of operations.

If the Issuer does not control its financial and operational risks, including, in particular, maintaining cyber security and managing the pace of change around digital products and services it 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. It 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 and commitments. 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, the Issuer could become unable to meet its own obligations, including those under the Notes, resulting in material adverse effects to its business, financial condition and reputation.

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 authorisation, failure to comply with regulatory requirements and conduct of business rules and equipment failures, particularly in relation to electronic banking applications. External factors include natural disasters, terrorist action or the failure of external systems, for

example, those of its suppliers or counterparties. These could, for example, prevent the Issuer's customers from withdrawing cash from the Issuer's automatic telling machines (ATMs) or from having their salary credited to their accounts with the Issuer and, if customers associate their problem with the Issuer rather than with the institution causing the problem, this would have an operational and financial impact on the Issuer's performance. A feature of operational risk is that financial institutions rely on systems and controls such as standard form documentation and electronic banking applications to process high volumes of transactions. As a result, any error in the Issuer's standard documentation or any defect in its electronic banking applications can be replicated across a large number of transactions before the error or defect is discovered and corrected and this could significantly increase the cost to the Issuer of remediating the error or defect, could expose it to the risk of regulatory sanction, unenforceability of contracts and, in extreme cases, could result in significant damage to its reputation.

In particular, increased digital interconnectivity across the Group, its customers and suppliers, and the need for cyber-security, remains an evolving risk to financial institutions including the Issuer. The Issuer's implementation of new systems, infrastructures and processes, alongside the maintenance of legacy systems, introduces a level of operational complexity. In an increasingly digital world, customer expectations are rising, with a significantly lower tolerance of service disruption. Ensuring a highly reliable and widely available service requires resilient IT, business systems and processes. Meanwhile the exponential rise in data used in digital services increases the complexity and cost of managing data securely and effectively. Further, the maturity and sophistication of organised cyber-crime continue to increase and have been highlighted by a number of recent attacks in the financial and non-financial sectors, including payment services. Such attacks have also increased the public awareness of cyber-threats. As a result of the continued increasing threat from cyber-crime, security controls have needed to keep pace to prevent, detect and respond to any threats or attacks. The constant threat posed by a cyber-attack directly impacts the existing risks associated with external fraud, data loss, data integrity and availability. Although the Issuer maintains measures designed to ensure the integrity of key systems and processes, it may be the victim of cyber-attacks, including denial of service attacks which could significantly disrupt the Issuer's operations and the services it provides to its customers or attacks designed to obtain an illegal financial advantage. Any such attack could, amongst other things, cause significant financial loss and reputational damage to the Issuer, and could result in a loss of confidence in the Issuer, potentially resulting in existing customers withdrawing deposits and/or deterring prospective new customers.

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

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 Financial Services and Markets Act 2000, as amended.

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

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

The Issuer has developed a financial performance framework based on the fundamental principle of maintaining its capital at a prudent level in excess of regulatory requirements. The framework provides parameters which allow it to calibrate future performance and help ensure that it achieves the right balance between distributing value to members, investing in the business and maintaining financial strength. The most important of these parameters is underlying profit which is a key component of the Issuer's capital. In this context, the Issuer currently believes that generating underlying profit of approximately £0.9 billion to £1.3 billion per annum over the medium-term is an appropriate target for capital planning purposes. This range is based on its current assumptions around the size of the mortgage market and maintaining a UK leverage ratio in excess of 4.0 per cent. This range, which will vary from time to time, should not be construed as a forecast of the likely level of the Issuer's underlying profit for any financial year or period within a financial year. There can be no assurance that the Issuer will continue to generate profits within its target range.

In addition, the Issuer is seeking to ensure that its financial performance will be supported by a renewed focus on efficiency. Whilst cost income ratio was previously the Issuer's main measure of efficiency, the Issuer has, as at 4 April 2017, set a target to deliver £300 million of sustainable cost savings by 2022, intended to be delivered across a range of initiatives, including 'right first time' member service, third party procurement reviews, process automation and digitised service delivery, as well as targeted restructuring activity. However, there can be no assurance that such targeted cost savings will be achieved.

Any failure by the Issuer to meet its targeted profit range for capital planning purposes and/or to achieve its targeted efficiencies could adversely impact its capital ratios and the results of operations of the Issuer.

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 recordkeeping; 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 the Issuer's business, financial condition and results of operations and could damage its relationships with its regulators. The Issuer cannot ensure that it will be successful in avoiding damage to its business from reputational risk.

The Issuer is exposed to risks relating to the 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, current or future 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 BoE, the Prudential Regulation Authority (the **PRA**), the FCA, HM Treasury, the CMA, the Financial Ombudsman Service (the **FOS**) or the courts as not being conducted in accordance with applicable laws or regulations, or, in the case of the FOS, with what is fair and reasonable in the FOS's opinion;
- the alleged misselling of financial products, including as a result of having sales practices and/or rewards structures that are deemed to have been inappropriate, may result in disciplinary action (including significant fines) or requirements to amend sales processes, withdraw products, or provide restitution to affected customers, all of which may require additional provisions to be recorded in 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 the Issuer's business.

In addition, the Issuer faces both financial and reputational risk where legal or regulatory proceedings, or complaints before the FOS, or other complaints are brought against it or members of the Issuer's industry generally in the UK High Court or elsewhere. For example, in August 2010, the Financial Services Authority (the **FSA**) published a Policy Statement (PS10/12) on "The Assessment and Redress of Payment Protection Insurance Complaints" (the **Statement**). The Statement applies to all types of Payment Protection Insurance (**PPI**) policies. The Statement followed the Consultation Paper (CP10/06) and the FSA pressed forward with their measures stated in the Consultation Paper (CP10/12). Following publication of the Statement, the British Bankers Association (**BBA**) and others requested a judicial review of the FSA's proposed approach to the assessment and redress of complaints in respect of sales of PPI. On 20 April 2011, the High Court ruled in favour of the FSA in concluding that banks and building societies which had sold PPI would be required to review all past PPI sales including sales to customers who had not made complaints. The BBA chose not to appeal this ruling. The ruling has resulted in very significant provisions for customer redress being made by several UK financial services providers. The Group recognised a net charge for customer redress of £136 million in the year ended 4 April 2017, as compared to a charge for customer redress of £127 million in the year ended 4 April 2016. Although there have been no significant PPI product sales since 2007, the Issuer continues to see a number of PPI claims and there can be no assurance that the Issuer's estimates for potential liability are correct, and the Issuer's reserves taken to date might prove inadequate.

In November 2014, the UK Supreme Court ruled in *Plevin v. Paragon Personal Finance Ltd* (**Plevin**) that a failure to disclose to a client a large commission payment on a single premium PPI policy made the

relationship between a lender and the borrower unfair under section 140A of the Consumer Credit Act 1974 (the CCA). Following this judgment, the FCA published its consultation paper CP 15/39: Rules and guidance on PPI complaints on 26 November 2015. On 2 August 2016, the FCA published feedback to CP 15/39, together with a further consultation paper CP 16/20: Rules and guidance on payment protection insurance complaints: feedback on CP 15/39 and further consultation. CP 16/20 proposes changes to the proposed rules and guidance concerning the handling of PPI complaints in light of Plevin. The results of the consultation and the final rules and guidance, policy statement PS 17/3, were published on 3 March 2017 and may result in an increase in the volume of ‘Plevin-based’ unfair relationship claims brought against the lenders who failed to disclose significant PPI commissions when entering into credit agreements. A key aspect of the FCA’s final rules is a PPI complaints deadline falling two years from 29 August 2017 when the proposed rules come into force – hence PPI consumers would have until 29 August 2019 to complain to the Issuer or the FOS. There can therefore 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.

Ongoing reviews and analysis of the Issuer's own documentation and processes relating to consumer protection and sales practices are constantly being undertaken. No assurance can be given that the Issuer will not incur liability in connection with any past, current or future 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.

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

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

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

Future legislative, accounting 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 its products, including, for example, residential mortgages,

commercial lending, savings, investment, consumer credit and general insurance. 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 the Issuer's control and could materially adversely affect its business or operations.

A range of legislative, accounting 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:

- The Financial Services (Banking Reform) Act 2013 (the **Banking Reform Act**). Certain measures relating to the ring-fencing of domestic retail banking services of UK banks, contained in the Banking Reform Act have recently entered into force, although the full regime is not expected to come into force until 1 January 2019. The Government has carved building societies out of the ring-fencing legislation but has the power to amend the UK Building Societies Act to bring building societies legislation into line with the ring-fencing requirements if it considers it necessary at a later date.
- At the European Union level, structural reform measures that are similar to some of those contained in the Banking Reform Act (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 Report**). A legislative proposal for a Regulation on Bank Structural Reform has been published but a number of issues are proving contentious (in particular, the treatment of pre-existing national ring-fencing legislation in some Member States) and it is not certain when the Regulation on Bank Structural Reform will be adopted. The Issuer does not anticipate that the final Regulation on Bank Structural Reform will have any impact on 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 final Regulation on Bank Structural Reform 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. Following a period of consultation, HM Treasury

published the final Payment Services Regulations 2017 on 19 July 2017. 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 June 2017, the PRA published a policy statement relating to residential mortgage risk weights, including proposals to align firms' Internal Ratings Based (**IRB**) modelling approaches for residential mortgage risk weighted assets. This set out a number of modifications to the IRB modelling methodologies for residential mortgages, and sets the expectation for firms to update IRB models by the end of 2020. This could result in risk based requirements increasing following implementation of new models.
- The International Accounting Standards Board has introduced IFRS 9: “Financial Instruments” as a new standard to replace IAS 39: “Financial Instruments: Recognition and Measurement”. It will change the classification and measurement of some financial assets, the recognition and the financial impact of impairment and hedge accounting. IFRS 9 is required to be implemented in the Issuer's financial statements for the financial year ending 31 December 2018. The application of IFRS 9 is generally expected to lead to higher expected credit loss provisions and a corresponding decrease in the capital ratios of institutions. See further “*Changes in the Issuer's accounting policies or in accounting standards could materially affect its capital ratios, how it reports its financial condition and results of operations*” below.
- In July 2017, the FCA announced as part of its feedback statement on high cost credit, that it will undertake further analysis of both arranged and unarranged overdrafts to better understand how consumers use overdraft facilities, how firms charge for them, and whether and how the FCA should intervene to prevent consumer harm.
- The General Data Protection Regulation comes into force in May 2018 and applies to personal data. Its definition is more detailed than the Data Protection Act (**DPA**) and makes it clear that information such as an online identifier, e.g. an IP address, can be personal data. It applies to both automated personal data and to manual filing systems where personal data is accessible according to specific criteria. This is wider than the DPA's definition and could include chronologically ordered sets of manual records containing personal data. A significant programme of work is in place to make the changes necessary to meet the requirements.
- As a result of the financial crisis, and in particular the collapse of certain financial institutions during the crisis, there has been a significant regulatory emphasis on minimising the impact of the failure of any one institution on the customers of that institution or the wider economy. In response to this concern, in July 2016, the PRA published its rules on ensuring operational continuity in resolution together with its policy statement and supervisory statement on the same (together, the Operational Continuity Rules). The Operational Continuity Rules will apply from 1 January 2019. The Operational Continuity Rules require certain firms, including the Issuer, to ensure that they can continue to receive critical services and supporting functions that are critical to both themselves and the wider economy during any failure or threatened failure of the firm. Additionally, the PRA is currently consulting on reporting requirements that will supplement the existing Operational Continuity Rules.

As at the date of this Base Prospectus, it is difficult to predict the effect that any of the proposed or recent changes will have on the Issuer'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 the Issuer's operations, structure, costs and/or capital requirements. Accordingly, the Issuer cannot assure investors that the implementation of any of the foregoing matters 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.

Changes in the Issuer's accounting policies or in accounting standards could materially affect its capital ratios, how it reports its financial condition and results of operations

From time to time, the International Accounting Standards Board (the **IASB**) and/or the European Union change the international financial reporting standards issued by the IASB, as adopted by the European Commission for use in the European Union, (**IFRS**) that govern the preparation of the Issuer's financial statements. These changes can be difficult to predict and could materially impact how the Issuer records and reports its financial condition and results of operations. In some cases, the Issuer could be required to apply a new or revised standard retroactively, resulting in restating prior period financial statements.

For example, IFRS 9: "*Financial Instruments*" is the new standard to replace IAS 39: "*Financial Instruments: Recognition and Measurement*". It will change the classification and measurement of certain financial assets, the recognition and the financial impact of impairment and hedge accounting. IFRS 9 is required to be implemented in the Issuer's financial statements for the financial year ending 4 April 2019.

Amongst other changes, IFRS 9 is replacing the incurred loss approach to impairment of IAS 39 with one based on expected credit losses (**ECL**), which will result in earlier recognition of credit losses. This introduces a number of new concepts and changes to the approach to provisioning compared with the methodology under IAS 39.

The European authorities have recognised the risk that application of IFRS 9 may lead to a sudden significant increase in ECL provisions and consequently a sudden decrease in the capital ratios of institutions. Accordingly, the Commission has proposed transitional periods for mitigating the impact of the introduction of IFRS 9 on own funds and a draft regulation was introduced on 3 May 2017 seeking to expedite implementation of the relevant transitional provisions.

Under the draft regulation, it is proposed that where an institution's opening balance sheet after adoption of IFRS 9 reflects a decrease in common equity tier 1 (**CET1**) capital as a result of increased ECL provisions (net of tax effect) compared to the previous closing balance sheet, the institution should be allowed to include in its CET1 capital a portion of the increased provisions during a transitional period. This transitional period should have a maximum duration of five years as from the opening balance sheet date and the portion of ECL provisions that can be included in CET1 capital should decrease over time down to zero to deliver full implementation by the end of the five year period. As provisions incurred after implementation could rise significantly and unexpectedly due to a worsening macroeconomic outlook, the draft regulations also provide that institutions should be given additional relief in such cases through the transitional arrangements. The precise terms of the transitional provisions are still to be determined.

The financial reporting impact of IFRS 9 is expected to be quantified once models and systems allow the Issuer to provide reliable estimates. However, the Issuer's current estimates are that IFRS 9 will lead to an increase in provisions held against loans and advances to customers, in so far as it:

- estimates credit losses on certain assets over their full life on an expected credit loss basis, rather than the current incurred loss basis; and
- takes account of forward-looking economic scenarios and captures potential downside economic risks that are not explicitly included in the current methodology.

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

Risks relating to the UK Banking Act 2009 and the BRRD

In Europe, the BRRD introduced a package of minimum early intervention and resolution-related tools and powers for relevant authorities and provided 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 on 1 January 2015.

As described in more detail above under "*The UK Banking Act 2009 confers substantial powers on a number of UK authorities designed to enable them to take a range of actions in relation to UK deposit-taking institutions which are considered to be at risk of failing. The exercise of any of these actions in relation to the Issuer or any Notes could materially adversely affect the value of any Notes and/or the rights of Noteholders*", the Banking Act, as amended to implement the BRRD requirements, affords the Authorities significant powers to deal with failing UK banks or building societies.

The taking of any actions under the Banking Act in respect of Notes issued under the Programme could directly adversely affect the rights of holders in respect of such Notes. However, whether or not such powers are used directly in respect of Notes, the use of any such powers in respect of the Issuer could materially adversely affect the ability of the Issuer to perform its obligations in respect of any Notes, and the use of such powers (or any anticipated use of such powers, whether or not ultimately used) could materially adversely affect the price or value of Notes and/or the liquidity and/or volatility of any market in any Notes.

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

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

There is considerable uncertainty about the scope of the powers afforded to the Authorities under the Banking Act and related legislation and how the Authorities may choose to exercise them. 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 any of its securities and there has been no indication that they will make any such instrument or order. However, there can be no assurance that this will not change and/or that Noteholders will not be adversely affected by any such order or instrument if made.

The Issuer is subject to regulatory capital and liquidity requirements which are subject to change

The Issuer is subject to capital and liquidity requirements that could have an impact on its operations. Changes to the capital and liquidity requirements under which the Issuer operates could hinder growth by prescribing more stringent requirements than those with which it 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 a Minimum Requirement for own funds and Eligible Liabilities (**MREL**), capital requirements for residential mortgages and review of the IRB model framework, use of the standardised approach for credit risk and use of the revised standardised approach for operational risk.

Overview

The package of reforms developed by the Basel Committee (**Basel III**), including additional capital requirements, requirements for 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 harmonised 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.

Risk-based capital requirements

The Issuer's capital is reported as a ratio of risk-weighted assets (**RWAs**) expressed as a percentage in different measures: Common Equity Tier 1 capital, 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.

In 2014, the Basel Committee began issuing proposals to revise the credit risk standardised approach (SA) and simpler approaches for measuring operational risk leading to the proposal of a new standardised measurement approach (SMA) for operational risk in 2016. It also started a discussion on aggregated internal-rating model floors, concerned about the wide variability in RWAs arising from banks' internal models. Potential phase-in arrangements are still under discussion, with a gradual implementation likely from 2021 until 2025. The Issuer calculates the majority of its risk exposures using the IRB approach.

In addition, in June 2017, the PRA published a policy statement relating to residential mortgage risk weights, including requirements to align firms' IRB modelling approaches for residential mortgage RWAs. This set out a number of modifications to the IRB modelling methodologies for residential mortgages, and sets the expectation for firms to update IRB models by the end of December 2020.

There remains significant uncertainty with respect to the implementation of the proposed Basel capital floor and the impact of the PRA's policy on residential mortgage risk weights. It is possible that these changes will result in a significant increase in the Issuer's RWAs and, therefore, reduce its CET1 ratio. Given the nature of the Society's balance sheet, which is underpinned by low risk residential mortgage assets, the Issuer's current

binding capital constraint is based on leverage (rather than risk-based) capital requirements. Based on the Issuer's current understanding of the proposed changes to risk-weights, and subject to final implementation, the Issuer currently expects that the leverage ratio will continue to be its binding capital constraint in the near-term. However, it is possible that these changes will, over time, result in risk-weighted capital requirements becoming the binding constraint on the Issuer. The Issuer anticipates that any capital floor would be implemented over a transitional period, and would expect to respond to any increase in overall capital requirements through organic capital generation (retained earnings) during such a transitional period.

Since 2014, the Bank of England has conducted concurrent stress tests of the UK banking system on an annual basis. The annual cyclical scenario includes all major UK banks with total retail deposits equal to, or greater than, £50 billion on an individual or consolidated basis, at a firm's financial year-end date. At present, this group also comprises the Issuer. There is a risk that the Issuer may fail its annual stress test (which would have the effect of damaging its reputation and other associated adverse consequences) and be subject to future regulatory developments to the Bank of England's stress testing framework which could lead to, amongst others, a requirement to raise further capital.

In addition, the EBA has conducted its own stress tests for certain European financial institutions. Although the Issuer has not to date been involved in the EBA's stress tests, if it were to be included in the future, as with the Bank of England's stress tests there is a risk that it would be subject to any future regulatory developments affecting the evolution of the EBA's stress testing framework.

Capital planning for risk-based requirements

For present capital planning purposes, the Issuer is currently anticipating an end-state CET1 capital requirement equal to 12.9 per cent. of risk-weighted assets (**RWAs**), comprising Pillar 1, Pillar 2A and buffer requirements. The Pillar 1 CET1 requirement is 4.5 per cent. (56 per cent. of total Pillar 1 requirement). The Issuer's Pillar 2A CET1 requirement is currently equivalent to 3.9 per cent. (56 per cent. of total Pillar 2A requirements) and, whilst Pillar 2A is set annually, the Issuer assumes a constant level for capital planning purposes. Buffers comprise a 2.5 per cent. capital conservation buffer (phased in until 2019), a 1.0 per cent. systemic risk buffer (from 2019) and an assumed 'normal state' 1.0 per cent. countercyclical buffer (when economic risks are neither heightened nor subdued).

The Issuer's latest Pillar 2A Individual Capital Guidance (**ICG**) was received in August 2017 following an Internal Capital Adequacy Assessment Process. It equates to approximately £2.4 billion, of which at least approximately £1.3 billion must be met by CET1 capital, and was broadly unchanged from the previous ICG. Had this ICG been in place at 4 April 2017, it would have been equivalent to 6.9 per cent. of RWAs, reflecting the low average risk-weight, given that approximately 75 per cent. of Nationwide's total assets as at 4 April 2017 are in the form of secured residential mortgages, of which 81 per cent. are prime residential mortgages.

Leverage requirements

CRD IV also introduced a Tier 1 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 7 December 2015, the PRA published a Policy Statement (**PS27/15**) and final rules regarding the implementation of a UK leverage ratio framework, which came into force from 1 January 2016. In-scope firms are required to meet a minimum leverage ratio requirement of 3 per cent., a countercyclical leverage ratio buffer and a supplementary leverage ratio. Currently, and over the Issuer's business planning horizon, the

Issuer expects to remain above current expectations of its regulatory leverage ratio requirement, including the UK leverage ratio framework proposed by the Financial Policy Committee in October 2014. Should the Issuer fail, or be perceived likely to fail, to meet leverage requirements this may result in administrative actions or regulatory sanctions.

Following the Financial Policy Committee's June 2017 meeting, the FPC have stated that, amongst other things, they intend to set the minimum UK leverage ratio requirement at 3.25 per cent. of non-reserve exposures, subject to consultation. This increase of 0.25 per cent. is designed to restore the level of resilience delivered by its leverage ratio standard to the level it delivered in July 2016, whilst preserving the benefit of the exclusion of central bank reserves from the leverage ratio exposure measure. The proposals in the FPC's June 2017 recommendation to the PRA and the PRA Consultation Paper (**CP11/17**) (that sets out how the FPC's recommendation would be implemented), aim to ensure that the leverage ratio does not act as a barrier to the effective implementation of any monetary policy action that leads to an increase in central bank reserves. The proposals could also increase the financial sector's ability to cushion shocks to the financial system and the provision of credit to the real economy by drawing on central bank liquidity facilities as necessary. The consultation paper requested responses by 12 September 2017. The Issuer does not currently expect the consultation to result in any material changes to the FPC's proposed minimum UK leverage ratio requirement of 3.25 per cent. plus buffers).

The supplementary leverage ratio buffer referred to above will not apply until 2019, and will only apply to firms with a balance sheet size over £175 billion. The Issuer is at the lower end of this range, therefore the supplementary leverage ratio buffer is likely to be 0.35 per cent.

The FPC has also announced an increase to the UK countercyclical capital buffer (**CCyB**) rate from 0 per cent. to 0.5 per cent., with binding effect from 27 June 2018. Absent a material change in the outlook, and consistent with its stated policy for a standard risk environment and of moving gradually, the FPC expects to increase the rate to 1 per cent. at its November 2017 meeting, with binding effect a year after that. The increase in the CCyB rate will also lead to a proportional increase in major UK banks and building societies' leverage requirements via the countercyclical leverage buffer (**CCLB**).

Capital planning for leverage requirements

For capital planning purposes, the Issuer is currently anticipating an end-state leverage requirement equal to 4.0 per cent. of the UK leverage exposure. This comprises of the proposed minimum leverage requirement of 3.25 per cent., plus a supplementary leverage ratio buffer of 0.35 per cent. and an assumed 'normal state' CCLB of 0.4 per cent. (when economic risks are neither heightened or subdued).

MREL

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, 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 Regulatory Technical Standards specifying the criteria used to set MREL (requirements include amounts for loss absorption, recapitalisation, the impact of retail deposit guarantees, adjustment for the eligibility of certain liabilities, and supervisory judgment following the Supervisory Review and Evaluation Process (the **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 entered into force on 12 September 2016.

In November 2016, the Bank of England published its statement of policy on its approach to setting MREL. On 5 May 2017, the Bank of England published a document containing indicative data for the MREL obligations for UK banks, building societies and large investment firms. It consisted of two tables showing indicative MRELS for the UK's systemically important financial institutions and the average indicative MREL of other firms with a resolution plan that involves the use of bail-in or transfer powers. The Bank of England intends to review its approach to calibration of the final MRELS for all firms before the end of 2020, before it sets the final MRELS for firms. The Bank of England stated that it would have regard to any intervening changes in the UK regulatory framework, as well as firms' experience in issuing liabilities to meet their interim MRELS.

On 27 July 2017, the PRA published a consultation paper with the intention of updating its November 2016 statement of policy (**SS 16/16**). SS 16/16 states that the PRA expects firms not to count CET1 capital towards both MREL and the buffer requirements. Subsequently, the PRA has been asked about the situation where MREL is calibrated on the basis of one capital regime (e.g. leverage, in circumstances where the leverage requirement is larger than the risk-weighted requirement), but the largest requirement for buffers derives from the other regime (e.g. risk-weighted capital). The July 2017 consultation paper proposes to update SS 16/16 to clarify that the expectations set out therein are not intended to create a different buffer requirement from that which is usable in the going-concern regime. The consultation closes on 29 September 2017.

On 23 November 2016, the European Commission published proposals for widespread revisions to the EU prudential regulatory framework under CRD IV. The proposals have been labelled by commentators as the "CRD V/CRR 2" package, but would also result in substantial related amendments to the BRRD. The proposals purport to implement various updated global standards, including minimum external and internal total loss-absorbing capacity (TLAC) requirements for EU global systemically important institutions, including steps to harmonise the creditor hierarchy of EU banks, which from 2017 would create an MREL-eligible non-capital debt instrument. This would bring increased flexibility for the Issuer's future MREL issuance, but is dependent on legislation differentiating the new liability from other senior unsecured liabilities being written into UK statute.

MREL planning

The Issuer expects to be subject to an MREL requirement of twice its minimum leverage ratio requirement plus the relevant buffer requirements from 1 January 2020. The Bank of England gave the Issuer an indicative MREL requirement of 6 per cent. of its UK leverage exposure plus buffers, however the FPC has since proposed changes to the UK leverage ratio framework which could result in a higher requirement. The Issuer currently expects to seek to meet its 2020 requirement through the issuance of MREL-compliant debt securities, with an estimated gross issuance requirement of approximately £5 billion ahead of 1 January 2020 implementation.

Liquidity

Basel III introduces certain minimum liquidity standards (referred to as the Liquidity Coverage Ratio (**LCR**) and the Net Stable Funding Ratio (**NSFR**), which both fall within the PRA's Pillar 1 regime. The LCR is intended to measure whether firms hold an adequate level of unencumbered high-quality assets to meet net cash outflows under a stress scenario lasting for 30 days. The ratio measures the stock of liquid assets (the numerator) against net cash outflows (the denominator) arising in the 30 day stress scenario period. Firms would be expected to maintain an LCR of at least 100 per cent., once the LCR is fully implemented. In the UK, the PRA has set the LCR at 80 per cent. from 1 October 2015, rising to 90 per cent. on 1 January 2017 and reaching 100 per cent. on 1 January 2018. The NSFR is intended to address liquidity mismatches, with the

aim of aligning more closely the funding of longer-term (and hence more illiquid) assets or activities with more stable medium or longer-term liability and equity financing. The NSFR measures the amount of stable funding available to a bank against the required amount of stable funding. The ratio should be equal to at least 100 per cent. on an ongoing basis (i.e. the available stable funding must exceed the required stable funding). The Basel Committee expected its members to introduce the NSFR as a minimum standard by 1 January 2018; however, the Council of the EU and the European Parliament are still considering the Commission's legislative proposals for the CRR 2 regulation which contains measures introducing a binding NSFR.

On 13 July 2017, the PRA published a consultation on Pillar 2 liquidity (**CP13/17**). The Pillar 2 liquidity framework focuses on liquidity risks not captured, or not fully captured, under Pillar 1 requirements. CP13/17 builds on the proposals in a May 2016 consultation paper (**CP21/16**), which, among other things, set out the objectives of the Pillar 2 framework and proposed a statement of policy on the PRA's approach to Pillar 2 risks (intraday liquidity, debt buyback and non-margined derivatives). CP 21/16 also anticipated that additional requirements relating to cashflow mismatch risk (**CFMR**) would be required. In CP13/17, the PRA, among other things, sets out its proposals on a CFMR framework and other PRA methodologies for assessing firms' liquidity risk, under the Pillar 2 liquidity framework. The proposals are of direct relevance to UK banks, building societies and PRA-designated investment firms. The deadline for responses to the proposals in CP13/17 is 13 October 2017, after which the PRA will publish a full overview of the stakeholder responses to these proposals and to those in CP21/16. The implementation of the new Pillar 2 methodologies is envisaged to commence in early 2018.

Capital management

Effective management of its capital is critical to the Issuer's 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 RWAs (which may be pro-cyclical under the current capital requirements regulation, resulting in risk weighting increasing in economic downturns), delays in the disposal of certain assets or the inability to raise capital or funding through wholesale markets as a result of market conditions or otherwise) could have a material adverse impact on the Issuer's business, financial condition, results of operations, liquidity and/or prospects. Such material adverse impacts could require the Issuer to raise more capital, change its credit rating (which would make it more expensive to borrow), reduce its profitability and affect the Issuer's ability to service its debt, including the Notes. If the Issuer fails, or is perceived to be likely to fail, to meet its minimum regulatory requirements, this may result in administrative actions or regulatory sanctions.

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

The FSMA established the Financial Services Compensation Scheme (the **FSCS**), which pays compensation to eligible customers of authorised financial services firms which are unable, or are likely to be unable, to pay claims against them. For further information, please refer to the section entitled "*Description of the Society—Financial Services Compensation Scheme*". Based on its 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 is required to pay a significantly increased amount of interest which it recovers through additional levies on the financial services industry.

In common with other financial institutions which are subject to the FSCS, 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 levies on the industry, in addition to levies due to the banking failures of 2008 and 2009, amounting to £365 million, of which £42 million was paid by the Group during the financial years ended 4 April 2014 and 4 April 2015.

The latest communications from the FSCS are 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 its results of operations. Further costs and risks may also arise from discussions at national and EU levels around the future design of financial services compensation schemes, including increasing the scope and level of protection and moving to pre-funding of compensation schemes.

The amount provided for in the Issuer's accounts to meet its obligations to the FSCS was £42 million as at 4 April 2017 (£84 million as at 4 April 2016). This comprises £27 million of levies relating to the 2016/17 FSCS scheme year and £15 million relating to the 2017/18 scheme year. The amount relating to the 2016/17 scheme year is payable by 1 September 2017 and reflects a £13 million release, as a result of the FSCS confirming receipt of £100 million from the administration of the failed Icelandic banking institutions, which will be refunded by way of a reduction in their 2016/17 scheme year interest costs. On 31 March 2017, UK Asset Resolution Limited (**UKAR**) confirmed that it had agreed to sell two separate asset portfolios of Bradford and Bingley plc in order to repay the £16 billion loan outstanding to HM Treasury. The first asset portfolio sale transaction was completed on 25 April 2017, reducing the outstanding loan to HM Treasury to approximately £5 billion. As a result, the annual FSCS charge in relation to interest costs and management expenses has reduced significantly to £15 million (2016: £46 million) for the 2017/18 scheme year. The second sales transaction is anticipated to be completed by March 2018. In April 2014, the new EU directive on deposit guarantee schemes (**DGSD**) was adopted and EU 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 per cent. of the covered deposits of credit institutions; the schemes are to be funded through regular contributions before the event (ex-ante) to the deposit guarantee schemes. (The UK has previously operated an ex-post financing where fees are required after a payment to depositors has occurred.) In case of insufficient ex-ante funds, the deposit guarantee scheme will collect immediate after the event (ex-post) contributions from the banking sector, and, as a last resort they will have access to alternative funding arrangements such as loans from public or private third parties. HMT and the PRA have brought into force final requirements on the UK implementation of the DGSD. These requirements provide, amongst other things, that the ex-ante contributions are met by funds already collected under the UK bank levy (with the ability, in the case of insufficient funds, to collect immediate ex-post contributions) and changes to the UK FSCS include the introduction of temporary high balance deposit protection, up to £1 million, 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 directive and requirements, 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. From 30 January 2017, the standard depositor protection limit was increased from £75,000 to £85,000.

Senior Managers and Certification Regime

The Senior Managers and Certification Regime (the **SM&CR**) came into force on 7 March 2016 and is intended to govern the conduct of senior persons within UK banks, building societies, credit unions, PRA-designated investment firms and branches of foreign banks operating in the UK. The FCA and the PRA have

now published the majority of their rules and guidance on the SM&CR. Among other things, the SM&CR introduced: (i) a new senior persons regime governing the conduct of bank staff; (ii) the introduction of a criminal offence for reckless misconduct by senior bank staff; and (iii) steps to improve competition in the banking sector. From 7 March 2017, the conduct rules previously only applicable to Senior Managers and staff within the SM&CR have applied to all staff other than those undertaking purely ancillary functions. Rules regarding regulatory references for Senior Managers and staff within the SM&CR also came into force from 7 March 2017. The PRA and FCA continue to publish guidance on the SM&CR, most recently the Policy Statement PS12/17 on strengthening individual accountability in banking and insurance: amendments and optimisations. The SM&CR will have a substantial impact on banks and building societies in the UK generally, including the Issuer.

DOCUMENTS INCORPORATED BY REFERENCE

The following documents, which have previously been published or are published simultaneously with this Base Prospectus and have been approved by the FCA or filed with it, shall be incorporated in, and form part of, this Base Prospectus:

- (i) the auditors' report and audited consolidated annual financial statements of the Issuer for the year ended 4 April 2016 (contained on pages 195 to 286 (inclusive) of the Issuer's 2016 Annual Report and Accounts);
- (ii) the auditors' report and audited consolidated annual financial statements of the Issuer for the year ended 4 April 2017 (contained on pages 137 to 214 (inclusive) of the Issuer's 2017 Annual Report and Accounts);
- (iii) the interim management statement of the Issuer for the three-month period ended 30 June 2017; and
- (iv) the Terms and Conditions of the Notes contained in the previous Base Prospectuses dated 9 August 2002 (pages 19-39 inclusive), 6 August 2004 (pages 21-42 inclusive), 5 October 2006 (pages 26-47 inclusive), 22 October 2007 (pages 44-68 inclusive), 11 November 2008 (pages 51-73 inclusive), 30 November 2009 (pages 52-74 inclusive), 28 September 2010 (pages 58-80 inclusive), 28 September 2011 (pages 62-84 inclusive), 2 October 2012 (pages 38-61 inclusive), 2 October 2013 (pages 42-65 inclusive), 2 October 2014 (pages 45-69 inclusive), 28 September 2015 (pages 48-80 inclusive) and 31 August 2016 (pages 48 to 79 inclusive) as supplemented by the supplement dated 17 July 2017, in each case prepared by the Issuer in connection with the Programme.

The table below sets out the relevant page references in (i) the Issuer's Annual Report and Accounts for the year ended 4 April 2016 for the Issuer's audited consolidated annual financial statements for the year ended 4 April 2016 and auditors' report thereon and (ii) the Issuer's Annual Report and Accounts for the year ended 4 April 2017 for the Issuer's audited consolidated annual financial statements for the year ended 4 April 2017 and auditors' report thereon:

Audited consolidated annual financial statements for the year ended 4 April 2016

Independent Auditors' Report	Page 195-201
Income statements	Page 202
Statements of comprehensive income	Page 203
Balance sheets	Page 204
Group statement of movements in members' interests and equity	Page 205
Society statement of movement in members' interests and equity	Page 206
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Audited consolidated annual financial statements for the year ended 4 April 2017

Independent Auditors' Report	Page 137-145
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Statements of comprehensive income	Page 147
Balance sheets	Page 148
Group statement of movements in members' interests and equity	Page 149
Society statement of movement in members' interests and equity	Page 150
Cash flow statements	Page 151
Notes to the Accounts	Page 152-214

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

Certain information contained in the documents listed above has not been incorporated by reference in this Base Prospectus. Such information is either (i) not considered by the Issuer to be relevant for prospective investors in the Notes to be issued under the Programme or (ii) is covered elsewhere in this Base Prospectus.

Copies of documents incorporated by reference in this Base Prospectus will be available for viewing without charge (i) at the principal office of the Issuer, (ii) from the specified offices of the Paying Agents for the time being in London and Luxembourg and (iii) on the website of the London Stock Exchange through a regulatory information service (<http://www.londonstockexchange.com/exchange/news/market-news/market-news-home.html>). 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.

The Issuer will, in the event of any significant new factor, material mistake or inaccuracy relating to information included in this Base Prospectus which is capable of affecting the assessment of any Notes, prepare a supplement to this Base Prospectus or publish a new Base Prospectus for use in connection with any subsequent issue of Notes. The Issuer has undertaken to the Dealers in the Programme Agreement (as defined in "*Subscription and Sale*") that it will comply with section 87G of the FSMA.

FORM OF THE NOTES

Each Tranche of Notes will initially be represented by a temporary global Note or, if so specified in the applicable Final Terms, a permanent global note without interest coupons or talons, which, in either case, will:

- (a) if the global Notes are intended to be issued in new global note (**NGN**) form, as stated in the applicable Final Terms, be delivered on or prior to the original issue date of the Tranche to a common safekeeper (the **Common Safekeeper**) for Euroclear and Clearstream, Luxembourg; and
- (b) if the global Notes are not intended to be issued in NGN form, be delivered on or prior to the original issue date of the Tranche to a common depository (the **Common Depository**) for Euroclear and Clearstream, Luxembourg.

Where the Global Notes issued in respect of any Tranche are in NGN form, the applicable Final Terms will also indicate whether or not such Global Notes are intended to be held in a manner which would allow Eurosystem eligibility. Any indication that the Global Notes are to be so held does not necessarily mean that the Notes of the relevant Tranche will be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem either upon issue or at any times during their life as such recognition depends upon satisfaction of the Eurosystem eligibility criteria. The Common Safekeeper for NGNs will either be Euroclear or Clearstream, Luxembourg or another entity approved by Euroclear and Clearstream, Luxembourg.

Any reference in this section “*Form of the Notes*” to Euroclear and/or Clearstream, Luxembourg shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearing system approved by the Issuer, the Trustee and the Agent. Whilst any Note is represented by a temporary global Note, payments of principal and interest (if any) due prior to the Exchange Date (as defined below) will be made (against presentation of the temporary global Note if the temporary global Note is not issued in NGN form) only to the extent that certification as to non U.S. beneficial ownership as required by U.S. Treasury regulations (in the form set out in the temporary global Note) has been received by Euroclear and/or Clearstream, Luxembourg and Euroclear and/or Clearstream, Luxembourg, as applicable, has given a like certificate (based on the certifications it has received) to the Agent.

On and after the date (the **Exchange Date**) which is 40 days after the date on which the temporary global Note is issued, interests in the temporary global Note will be exchangeable, upon request being made by Euroclear and/or Clearstream, Luxembourg acting on the instructions of the holders of interests in the temporary global Note, either for interests in a permanent global Note without interest coupons or talons or for definitive Notes (as indicated in the applicable Final Terms and subject, in the case of definitive Notes, to such notice period as is specified in the applicable Final Terms) in each case against certification as to non-U.S. beneficial ownership as described in the second sentence of the preceding paragraph unless such certification has already been given. The holder of a temporary global Note will not be entitled to receive any payment of interest or principal due on or after the Exchange Date. Pursuant to the Agency Agreement (as defined under “*Terms and Conditions of the Notes*” below), the Agent shall arrange that, where a further Tranche of Notes is issued which is intended to form a single Series with an existing Tranche of Notes, the Notes of such Tranche shall be assigned a common code and an ISIN by Euroclear and Clearstream, Luxembourg which are different from the common code and ISIN assigned to Notes of any other Tranche of the same Series until at least 40 days (as notified by the Agent to the relevant Dealer(s)/Manager(s)) after the completion of the distribution of the Notes of such first mentioned Tranche (the date of completion of the distribution of such Notes having been previously notified to the Agent by such Dealer(s)/Manager(s)).

Payments of principal and interest (if any) on a permanent global Note will be made through Euroclear and/or Clearstream, Luxembourg (against presentation or surrender (as the case may be) of the permanent global Note if the permanent global Note is not issued in NGN form) without any requirement for certification. A permanent global Note will be exchangeable, in whole but not in part, for security printed definitive Notes with, where applicable, interest coupons and talons attached upon not less than 45 days' written notice (expiring at least 30 days after the Exchange Date) to the Agent from Euroclear or Clearstream, Luxembourg (as the case may be) acting on instructions of the holders of interests in the permanent global Note. Unless otherwise provided in the applicable Final Terms a notice requiring exchange as aforesaid may only be given if an Exchange Event has occurred. Notes for which the applicable Final Terms permit trading in the clearing systems in Calculation Amounts which are not a Specified Denomination will only be exchangeable for definitive Notes upon an Exchange Event. **Exchange Event** means that the Issuer has been notified that either Euroclear or Clearstream, Luxembourg has been closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) after the relevant Issue Date or has announced an intention permanently to cease business or has in fact done so and no alternative clearing system satisfactory to the Trustee is available. The Issuer will promptly give notice to the Noteholders in accordance with the Conditions if an Exchange Event occurs. Temporary and permanent global Notes and definitive Notes will be authenticated (if applicable) and delivered by the Agent on behalf of the Issuer. In the case of Notes issued in NGN form which are intended to be held in a manner which would allow Eurosystem eligibility, the temporary and/or permanent global Note(s) will also be effectuated by the Common Safekeeper.

The exchange of a permanent global Note for definitive Notes upon notice from Euroclear and/or Clearstream (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 Notes 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 Notes which is to be represented on issue by a temporary global Note exchangeable for definitive Notes.

The following legend will appear on all global Notes, definitive Notes and interest coupons: "Any United States person (as defined in the Internal Revenue Code of the United States) 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 United States holders, with certain exceptions, will not be entitled to deduct any loss on Notes or interest coupons 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 Notes or interest coupons.

Notes which are represented by a Global Note 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.

No Noteholder or Couponholder shall be entitled to proceed directly against the Issuer unless the Trustee, having become bound so to proceed, fails so to do within a reasonable period and the failure shall be continuing.

The Issuer may agree with any Dealer and the Trustee that Notes may be issued in a form not contemplated by the terms and conditions of the Notes, in which event a drawdown prospectus or a new Base Prospectus will be made available which will describe the effect of the agreement reached in relation to such Notes.

FORM OF FINAL TERMS

Set out below is the form of Final Terms which will be completed for each Tranche of Notes issued under the Programme.

[PROHIBITION OF SALES TO EEA RETAIL INVESTORS – The Notes[, from 1 January 2018,] are not intended to be offered, sold or otherwise made available to and[, with effect from such date,] should not be offered, sold or otherwise made available to any retail investor in the European Economic Area (**EEA**). For these purposes, a **retail investor** means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (**MiFID II**); or (ii) a customer within the meaning of Directive 2002/92/EC (**IMD**), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II. Consequently no key information document required by Regulation (EU) No 1286/2014 (the **PRIIPs Regulation**) for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.]

[Date]

Nationwide Building Society
[Title of relevant Series of Notes (specifying type of Notes)]
issued pursuant to its U.S.\$25,000,000,000 European Note 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 31 August 2017 [and the supplemental Prospectus dated *[date]*] which [together] constitute[s] a base prospectus (the **Base Prospectus**) for the purposes of Directive 2003/71/EC (and amendments thereto, including Directive 2010/73/EU) (the **Prospectus Directive**). This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with the Base Prospectus. Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Base Prospectus. The Base Prospectus has been published on the website of the London Stock Exchange through a regulatory information service (<http://www.londonstockexchange.com/exchange/news/market-news/market-news-home.html>).

[Terms used herein shall be deemed to be defined as such for the purposes of the Conditions (the **Conditions**) set forth in the Base Prospectus dated *[original date]* [and the supplement to it dated *[date]*] and incorporated by reference into the Base Prospectus dated 31 August 2017. This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of Directive 2003/71/EC (and amendments thereto, including Directive 2010/73/EU) (the **Prospectus Directive**) and must be read in conjunction with the Base Prospectus dated 31 August 2017 [and the supplemental Prospectus dated *[date]*] which [together] constitute[s] a base prospectus (the **Base Prospectus**) for the purposes of the Prospectus Directive, including the Conditions incorporated by reference in the Base Prospectus. Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Base Prospectus. The Base Prospectus has been published on the website of the London Stock Exchange through a regulatory information service (<http://www.londonstockexchange.com/exchange/news/market-news/market-news-home.html>).]

TYPE OF NOTE

1. Deposit/Ordinary/Subordinated: []
2. Interest Basis: [Fixed Rate/ Reset/ Floating Rate/ Zero Coupon/ Combination (see paragraph[s] [12]/[13]/[14]/[15] below)]

DESCRIPTION OF THE NOTES

3. New Global Note: [Yes/No]
4. Form of Notes: [Temporary Global Note exchangeable for a Permanent Global Note which is exchangeable for Definitive Notes [on not less than 45 days' notice/only upon an Exchange Event]]
- [Temporary Global Note exchangeable for Definitive Notes]
- [Permanent Global Note exchangeable for Definitive Notes [on not less than 45 days' notice/only upon an Exchange Event]]
- [Notes shall not be physically delivered in Belgium, except to a clearing system, a depository or other institution for the purpose of their immobilisation in accordance with article 4 of the Belgian Law of 14 December 2005.]¹
5. (a) Series Number: []
- (b) Tranche Number: []
- (c) Date on which the Notes will be consolidated and form a single Series: [] [[Not Applicable]
6. (a) Nominal Amount of Notes to be issued: []
- (b) Aggregate nominal amount of Series (if more than one issue for the Series): []
- (c) Specified Currency: []
- (d) Specified Denomination(s): []
- (e) Calculation Amount: []

¹ Include for Notes that are to be offered in Belgium.

7. Issue Price: []
8. Issue Date: []
9. Interest Commencement Date: []/Issue Date/Not Applicable]
10. Automatic/optional conversion from one Interest Basis to another: [] [Not Applicable]
11. Additional Financial Centre(s) [Not Applicable/[]]

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

12. **Fixed Rate Note Provisions** [Applicable/Not Applicable]
- (a) Fixed Rate(s) of Interest: [] per cent. per annum payable in arrear on each Fixed Interest Date
- (b) Fixed Interest Date(s): [] in each year up to and including the Maturity Date
- (c) Initial Broken Amount per denomination: []
- (d) Fixed Coupon Amount(s) [] per Calculation Amount
(Applicable to Notes in definitive form):
- (e) Broken Amount(s) [[] per Calculation Amount, payable on the Fixed Interest Date falling [in/on] []] [Not Applicable]
(Applicable to Notes in definitive form):
- (f) Final Broken Amount per denomination: []
- (g) Day Count Fraction: [[Actual/Actual (ICMA)]
[30/360]
[Actual/Actual (ISDA)] [Actual/Actual]
Actual/365 (Fixed)
Actual/365 (Sterling)
Actual/360
[360/360] [Bond Basis]
[30E/360] [Eurobond Basis]
30E/360 (ISDA)]
- (h) Business Day Convention: [Following Business Day/Modified Following Business Day/Preceding Business Day]
- Adjusted: [Applicable/Not Applicable]
 - Non-Adjusted: [Applicable/Not Applicable]

- (i) Additional Business Centre(s): []
- (j) Determination Date(s): [[] in each year] [Not Applicable]
13. **Zero Coupon Note Provisions** [Applicable/Not Applicable]
- (a) Accrual Yield: []
- (b) Reference Price: []
- (c) Calculation Agent (if any): []
14. **Floating Rate Note Provisions** [Applicable/Not Applicable]
- (a) Party responsible for calculating the Interest Rate and Interest Amount (if not the Agent): []
- (b) Interest Period(s) or specified Interest Payment Date(s): []
- (c) Business Day Convention: [Floating Rate/Following Business Day/Modified Following Business Day/Preceding Business Day]
- (d) Additional Business Centre(s): []
- (e) First Interest Payment Date: []
- (f) Manner in which Rate of Interest is to be determined: [Screen Rate Determination/ISDA Determination]
- (g) If Screen Rate Determination:
- (i) Reference Rate, Specified Time and Relevant Financial Centre: Reference Rate: [] month [[] LIBOR/EURIBOR]
Specified Time: [11.00 a.m./[]]
Relevant Financial Centre:
[London/Brussels/Singapore]
- (ii) Interest Determination Date: []
- (iii) Relevant Screen Page: [] [Not Applicable]
- (h) If ISDA Determination:
- (i) Floating Rate Option: []
- (ii) Designated Maturity: []
- (iii) Reset Date: []

- (i) Linear Interpolation: [Not Applicable/Applicable – the Rate of Interest for the [long/short] [first/last] Interest Period shall be calculated using Linear Interpolation (*specify for each short or long interest period*)]
- (j) Margin(s): [plus/minus] [] per cent. per annum
- (k) Minimum Interest Rate (if any): [] per cent. per annum [in respect of the period from (and including) [the Interest Commencement Date]/[] to (but excluding) []]
- (l) Maximum Interest Rate (if any): [] per cent. per annum [in respect of the period from (and including) [the Interest Commencement Date]/[] to (but excluding) []]
- (m) Day Count Fraction: [[Actual/Actual (ISDA)] [Actual/Actual] Actual/365 (Fixed) Actual/365 (Sterling) Actual/360 [30/360] [360/360] [Bond Basis] [30E/360] [Eurobond Basis] 30E/360 (ISDA)]
15. **Reset Note Provisions** [Applicable/Not Applicable]
- (a) Initial Rate of Interest: [] per cent. per annum payable in arrear on each Interest Payment Date]
- (b) First Margin: [+/-][] per cent. per annum
- (c) Subsequent Margin: [[+/-][] per cent. per annum] [Not Applicable]
- (d) Interest Payment Date(s): [[] [and []]] in each year up to and including the Maturity Date
- (e) Fixed Coupon Amount to (but excluding) the First Reset Date: [] per Calculation Amount
- (f) Broken Amount(s): [[] per Calculation Amount, payable on the Interest Payment Date falling [in/on] []][Not Applicable]
- (g) Reset Reference Rate: [Mid-Swaps/Reference Bond]
- (h) First Reset Date: []
- (i) Second Reset Date: []/[Not Applicable]
- (j) Subsequent Reset Date(s): [] [and []] [Not Applicable]
- (k) Relevant Screen Page: []
- (l) Mid-Swap Rate: [Single Mid-Swap Rate/Mean Mid-Swap Rate]

- (m) Fixed Leg Swap Duration: [12 months / 6 months / []] [Not Applicable]
- (n) Floating Leg Swap Duration: [12 months / 6 months / 3 months / []] [Not Applicable]
- (o) Reference Bond Reset Rate Time: []
- (p) Reference Bond Price in respect of the first Reset Determination Date: []
- (q) Day Count Fraction: [30/360] [Actual/Actual (ICMA)]
- (r) Determination Date(s): [[] in each year][Not Applicable]
- (s) Business Centre(s): []
- (t) Calculation Agent: []

PROVISIONS REGARDING REDEMPTION/MATURITY

- 16. Maturity Date: []
- 17. Redemption at Issuer's option: [Applicable/Not Applicable]
 - (a) Optional Redemption Date(s): []
 - (b) Optional Redemption Amount: [[] per Calculation Amount]
 - (c) If redeemable in part:
 - (i) Minimum Redemption Amount: []
 - (ii) Maximum Redemption Amount: []
 - (iii) Minimum Period: [] days
 - (d) Notice periods: Minimum period: [] days
Maximum period: [] days
- 18. Regulatory Event (Subordinated Notes only): [Full Exclusion / Full or Partial Exclusion / Not Applicable]
- 19. Redemption at Noteholder's option: [Applicable/Not Applicable]
 - (a) Optional Redemption Date(s): []
 - (b) Optional Redemption Amount: [] per Calculation Amount
 - (c) Notice periods: Minimum period: [] days
Maximum period: [] days

20. Final Redemption Amount: Subject to any purchase and cancellation or early redemption, the Notes will be redeemed on the Maturity Date at [] per cent. of their nominal amount
21. Early Redemption Amount payable on [] per Calculation Amount redemption for taxation reasons or (for Subordinated Notes only) following a Regulatory Event or (for any Note) on an Event of Default:

GENERAL PROVISIONS APPLICABLE TO THIS ISSUE OF NOTES

22. U.S. Selling Restrictions: [Reg S Compliance Category 2: TEFRA D/TEFRA C/TEFRA not applicable]

THIRD PARTY INFORMATION

[[] has been extracted from []. The Issuer confirms that such information has been accurately reproduced and that, so far as it is aware and is able to ascertain from information published by [], no facts have been omitted which would render the reproduced information inaccurate or misleading.]

Signed on behalf of **NATIONWIDE BUILDING SOCIETY**

By:
Duly Authorised

By:
Duly Authorised

PART B – OTHER INFORMATION

1. LISTING AND ADMISSION TO TRADING

- (a) Listing and Admission to trading: [Application has been made by the Issuer (or on its behalf) for the Notes to be admitted to trading on the London Stock Exchange's regulated market and listing on the Official List of the UK Listing Authority with effect from [].]
- [Application is expected to be made by the Issuer (or on its behalf) for the Notes to be admitted to trading on the London Stock Exchange's regulated market and listing on the Official List of the UK Listing Authority with effect from [].]
- (b) Estimated of total expenses related to admission to trading: []

2. RATINGS

- Ratings: The Notes to be issued [have been/are expected to be] been rated:
- [Moody's Investors Service Limited: []]
[Standard & Poor's Credit Market Services Europe Limited: []]
[Fitch Ratings Ltd.: []]

3. INTERESTS OF NATURAL AND LEGAL PERSONS INVOLVED IN THE ISSUE

[Save for any fees payable to the Manager(s)/Dealer(s), so far as the Issuer is aware, no person involved in the issue of the Notes has an interest material to the offer. The Manager(s)/Dealer(s) and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform other services for, the Issuer and its affiliates in the ordinary course of business]

4. YIELD (*Fixed Rate Notes only*)

- Indication of yield: []
- [The yield is calculated on the basis of the Rate of Interest [applicable up to (but excluding) the First Reset Date] and the Issue Price as at the Issue Date. It is not an indication of future yield.]

5. OPERATIONAL INFORMATION

- (a) ISIN: []
- (b) Common Code: []

- (c) Any clearing system(s) other than Euroclear and Clearstream, Luxembourg and the relevant identification number(s): [Not Applicable/[]]
- (d) Names and addresses of additional Paying Agent(s) (if any): []
- (e) Intended to be held in a manner which would allow Eurosystem eligibility: [Yes. Note that the designation “yes” simply means that the Notes are intended upon issue to be deposited with one of the ICSDs as common safekeeper and does not necessarily mean that the Notes will be recognised as eligible collateral for Eurosystem monetary policy and intra day credit operations by the Eurosystem either upon issue or at any or all times during their life. Such recognition will depend upon the ECB being satisfied that Eurosystem eligibility criteria have been met.] / [No. Whilst the designation is specified as “no” at the date of these Final Terms, should the Eurosystem eligibility criteria be amended in the future such that the Notes are capable of meeting them the Notes may then be deposited with one of the ICSDs as common safekeeper. Note that this does not necessarily mean that the Notes will then be recognised as eligible collateral for Eurosystem monetary policy and intra day credit operations by the Eurosystem at any time during their life. Such recognition will depend upon the ECB being satisfied that Eurosystem eligibility criteria have been met.]

6. DISTRIBUTION

Prohibition of Sales to EEA Retail Investors: [Applicable/Not Applicable.]

TERMS AND CONDITIONS OF THE NOTES

The following are the Terms and Conditions of the Notes which will be incorporated by reference into each Global Note and each definitive Note, in the latter case only if permitted by the relevant stock exchange, relevant authority or quotation system (if any) and agreed by the Issuer and the relevant Dealer(s) at the time of issue. If not so permitted (where applicable) and agreed, each definitive Note will have endorsed upon or attached thereto such Terms and Conditions. The applicable Final Terms in relation to any Tranche of Notes may specify other terms and conditions which shall, to the extent specified or to the extent inconsistent with the following Terms and Conditions, replace or modify the following Terms and Conditions for the purpose of such Notes. The applicable Final Terms (or the relevant provisions thereof) will be endorsed upon, or attached to, each Global Note and definitive Note. Reference should be made to “Form of Final Terms” above for a description of the content of Final Terms which will specify which of such terms are to apply in relation to the relevant Notes.

This Note is one of a Series of notes (the notes of such Series being hereinafter called the **Notes**, which expression shall mean (a) in relation to Notes represented by a global note (a **Global Note**), units equal to the lowest Specified Denomination in the Specified Currency, (b) definitive Notes issued in exchange for a Global Note, and (c) any Global Note) constituted by a Trust Deed dated 17 April 1991 (such Trust Deed as modified and/or supplemented and/or restated from time to time, the **Trust Deed**) made between Nationwide Building Society (the **Issuer**) and The Law Debenture Trust Corporation p.l.c. (the **Trustee**, which expression shall include any successor as trustee).

The Notes are issued with the benefit of an Amended and Restated Agency Agreement dated 31 August 2016 (such Agency Agreement as amended and/or supplemented and/or restated from time to time, the **Agency Agreement**) made between the Issuer, Citibank, N.A., London Branch, as issuing agent, principal paying agent and agent bank (the **Agent**, which expression shall include any successor as agent), the other paying agents named therein (together with the Agent, the **Paying Agents**, which expression shall include any additional or successor paying agents) and the Trustee.

Interest bearing definitive Notes have interest coupons (**Coupons**) and, in the case of Notes which, when issued in definitive form, have more than 27 interest payments remaining, talons for further Coupons (**Talons**) attached on issue. Any reference in these Terms and Conditions to Coupons or coupons shall, unless the context otherwise requires, be deemed to include a reference to Talons or talons.

The final terms for this Note (or the relevant provisions thereof) are set out in Part A of the Final Terms endorsed upon or attached to this Note which supplements these Terms and Conditions and may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with these Terms and Conditions, replace or modify these Terms and Conditions for the purposes of this Note.

References herein to **applicable Final Terms** are, unless otherwise stated, to Part A of the Final Terms (or the relevant provisions thereof) attached to or endorsed on this Note.

The Trustee acts for the benefit of the holders of the Notes (the **Noteholders**, which expression shall, in relation to any Notes represented by a Global Note, 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), all in accordance with the provisions of the Trust Deed.

As used herein, **Tranche** means Notes which are identical in all respects (including as to listing, trading and/or quotation by any listing authority, stock exchange and/or quotation system) and Series means a Tranche of Notes together with any further Tranche or Tranches of Notes 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.

Copies of the Trust Deed and the Agency Agreement are available for inspection during normal business hours at the registered office for the time being of the Trustee, being at 31 August 2017 at Fifth Floor, 100 Wood Street, London EC2V 7EX and at the specified office of each of the Agent and the other Paying Agents. If the Notes are to be admitted to trading on the regulated market of the London Stock Exchange the applicable Final Terms will be published on the website of the London Stock Exchange through a regulatory information service. If this Note is neither admitted to trading on a regulated market in the European Economic Area nor offered in the European Economic Area in circumstances where a prospectus is required to be published under the Prospectus Directive, the applicable Final Terms will only be obtainable from the principal office of the Issuer and of the Agent by a Noteholder holding one or more Notes and such Noteholder must produce evidence satisfactory to the Issuer and the relevant Paying Agent as to its holding of such Notes and identity. The Noteholders and the Couponholders are deemed to have notice of, and are entitled to the benefit of, all the provisions of the Trust Deed, the Agency Agreement and the applicable Final Terms which are binding on them. Words and expressions defined in the Trust Deed or the Agency Agreement or used in the applicable Final Terms shall have the same meanings where used in these Terms and Conditions unless the context otherwise requires or unless otherwise stated and provided that, in the event of inconsistency between the Agency Agreement and the Trust Deed, the Trust Deed will prevail and, in the event of inconsistency between the Agency Agreement or the Trust Deed and the applicable Final Terms, the applicable Final Terms will prevail.

1. Form, Denomination and Transfer

The Notes are in bearer form and, in the case of definitive Notes, serially numbered, in the currency (the **Specified Currency**) and the denominations (the **Specified Denomination(s)**) specified in the applicable Final Terms. Notes of one Specified Denomination may not be exchanged for Notes of another Specified Denomination.

This Note is a Fixed Rate Note, a Reset Note, a Floating Rate Note or a Zero Coupon Note or any appropriate combination thereof, depending upon the Interest Basis shown in the applicable Final Terms.

This Note is also an Ordinary Note, a Deposit Note or a Subordinated Note, as indicated in the applicable Final Terms.

If this Note is a definitive Note, it is issued with Coupons and, if applicable, Talons attached, unless it is a Zero Coupon Note in which case references to interest and Coupons in these Terms and Conditions are not applicable.

Subject to the provisions relating to Global Notes set out below, title to the Notes and the Coupons will pass by delivery. Except as ordered by a court of competent jurisdiction or as required by law, the Issuer, the Trustee, the Agent and any other Paying Agent shall (subject as set out below) be entitled to deem and treat the bearer of any Note or Coupon as the absolute owner thereof (whether or not such Note or Coupon shall be overdue and notwithstanding any notice to the contrary or any notation of ownership or writing thereon or notice of any previous loss or theft thereof) for the purpose of making payment thereon and for all other purposes. For so long as any of the Notes is represented by a Global Note held on behalf of Euroclear Bank SA/NV (**Euroclear**) and/or Clearstream Banking S.A. (**Clearstream, Luxembourg**), each person (other than Euroclear or Clearstream, Luxembourg) who is for the time being shown in the records of Euroclear or Clearstream, Luxembourg as the holder of a particular nominal amount of such Notes (in which regard any certificate or other document issued by Euroclear or Clearstream, Luxembourg (including any form of statement or printout of electronic records provided by the relevant clearing system (including Euroclear's EUCLID or Clearstream, Luxembourg's Creation Online system) in accordance with its usual procedures and in which the holder of a particular nominal amount of Notes is clearly identified together with the amount of such holding) as evidence as to the nominal amount of such Notes standing to the account of any person shall be conclusive and binding for all purposes save in the case of manifest error) shall be treated by the Issuer, the Trustee, the Agent and any other Paying Agent as the holder of such nominal amount of such Notes for all

purposes other than with respect to the payment of principal and interest on such Notes, the right to which shall be vested, as against the Issuer, solely in the bearer of the Global Note in accordance with and subject to its terms (or the Trustee in accordance with the Trust Deed) (and the expressions **Noteholder**, **holder of Notes** and related expressions shall be construed accordingly). Notes which are represented by a Global Note will be transferable only in accordance with the rules and procedures for the time being of Euroclear and/or Clearstream, Luxembourg, as the case may be.

Any references herein to 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 Part B of the applicable Final Terms.

2. Status of Ordinary Notes and Deposit Notes

The Ordinary Notes and the Deposit Notes and any relative Coupons are direct, unconditional and (subject to the provisions of Condition 4) unsecured obligations of the Issuer and rank (subject to any applicable statutory exceptions or preferences and subject to the provisions of Condition 4) equally with all other unsecured and unsubordinated obligations of the Issuer.

3. Status and Subordination of Subordinated Notes

- (a) The Subordinated Notes and any relative Coupons are direct and unsecured obligations of the Issuer, subordinated and conditional as described below, and rank *pari passu* and without any preference among themselves. The claims in respect of principal, interest and any other amount (including, without limitation, any damages awarded for breach of the Issuer's obligations) in respect of the Subordinated Notes (and any relative Coupons) will, in the event of the winding up or dissolution of the Issuer (other than an Excluded Dissolution):
- (i) be subordinated in right of payment in the manner provided in the Trust Deed to all Senior Claims;
 - (ii) rank at least *pari passu* with claims in respect of obligations of the Issuer which constitute, or would but for any applicable limitation on the amount of such capital constitute, Tier 2 Capital; and
 - (iii) rank in priority to claims in respect of obligations of the Issuer which constitute, or would but for any applicable limitation on the amount of such capital constitute, Additional Tier 1 Capital (including, without limitation, the Issuer's permanent interest bearing shares) or Common Equity Tier 1 Capital (including the Issuer's core capital deferred shares) and in priority to any other claims ranking, or expressed to rank, junior to the Subordinated Notes.

Accordingly if the Issuer is at any time in winding up, then no principal, interest or other amounts in respect of the Subordinated Notes (whether or not already due or accrued prior to the commencement of such winding up) shall be payable by, nor shall any claim in respect thereof be provable against, the Issuer in such winding up unless and until and except to the extent that the Issuer could make such payment in whole or in part and still be solvent immediately thereafter. For the purpose of this Condition, the Issuer shall be deemed to be solvent if it is able to pay its Senior Claims in full, or the liquidator of the Issuer determines that it will be able to do so within a period not exceeding twelve months, in each case disregarding obligations which are not provable in the winding up.

As used in these Terms and Conditions:

deferred share investments has the meaning ascribed thereto in the rules of the Issuer (and includes the Issuer's permanent interest bearing shares and core capital deferred shares);

Excluded Dissolution means each of (i) a winding up or dissolution of the Issuer for the purpose of a reconstruction or amalgamation or the substitution in place of the Issuer of a successor in business the terms of which have previously been approved in writing by the Trustee or by an Extraordinary Resolution of the Noteholders, and (ii) a dissolution of the Issuer by virtue of the amalgamation and transfer provisions set out in sections 93, 94 and 97 of the Building Societies Act 1986, as amended (the **Act**), or by virtue of a transfer pursuant to an order made under section 3 of the Building Societies (Funding) and Mutual Societies (Transfers) Act 2007, as amended (or any successor provisions thereto);

investing members has the meaning ascribed thereto in the rules of the Issuer;

Regulatory Capital Requirements means, at any time, any requirement contained in the law, regulations, requirements, guidelines and policies then in effect relating to capital adequacy and prudential supervision and applicable to the Issuer, including (without limitation to the generality of the foregoing), those laws, regulations, requirements, guidelines and policies relating to capital adequacy and prudential supervision then in effect of the United Kingdom or the Supervisory Authority and/or any regulation, directive or other binding rules, standards or decisions adopted by the institutions of the European Union;

Senior Claims means the aggregate amount of all claims admitted in the winding up of the Issuer which are (i) claims of depositors of the Issuer, (ii) claims of investing members of the Issuer as regards the principal and interest due on share investments other than deferred share investments, (iii) claims of creditors in respect of unsubordinated obligations of the Issuer; and (iv) claims of creditors in respect of subordinated obligations of the Issuer other than claims (x) in respect of obligations which constitute, or would but for any applicable limitation on the amount of such capital, constitute, Tier 1 Capital or Tier 2 Capital or (y) which otherwise rank, or are expressed to rank, *pari passu* with, or junior to, the claims in respect of the Subordinated Notes; and

Supervisory Authority means, from time to time, the Bank of England acting as the Prudential Regulation Authority through its Prudential Regulation Committee or such other authority having primary supervisory authority with respect to prudential matters concerning the Issuer; and

Tier 1 Capital, Common Equity Tier 1 Capital, Additional Tier 1 Capital and Tier 2 Capital have the respective meanings given thereto (or to a successor or equivalent term) in the Regulatory Capital Requirements.

- (b) Subject to applicable law, no holder of a Subordinated Note may exercise, claim or plead any right of set-off, compensation or retention in respect of any amount owed to it by the Issuer arising under or in connection with the Subordinated Notes, any relative Coupons and each Noteholder and Couponholder shall, by virtue of being the holder of any such Subordinated Note or Coupon (as the case may be) be deemed to have waived all such rights of set-off, compensation or retention. Notwithstanding the provision of the foregoing sentence, if any of the said rights and claims of any Noteholder or Couponholder of a Subordinated Note against the Issuer is discharged by set-off, such Noteholder or Couponholder will immediately pay an amount equal to the amount of such discharge to the Issuer or, in the event of winding up of the Issuer the liquidator of the Issuer and accordingly such discharge will be deemed not to have taken place.

4. Negative Pledge

This Condition 4 does not apply to Subordinated Notes.

So long as any of the Ordinary Notes or, as the case may be, Deposit Notes remains outstanding the Issuer will not, and will not suffer or permit any Subsidiary of the Issuer to, create or have outstanding any mortgage, lien (not being a lien arising by operation of law), pledge or other security interest upon the whole or any part of its undertaking or assets, present or future, (**Security**) to secure any Loan Stock of the Issuer or such Subsidiary, respectively, or any obligation of the Issuer or of any Subsidiary of the Issuer under any guarantee of or indemnity in respect of Loan Stock of any other person, without at the same time or prior thereto securing the Notes and the Coupons (other than Subordinated Notes and any relative Coupons) (the **Protected Notes and Coupons**) equally and rateably therewith to the satisfaction of the Trustee or providing such other security for the Protected Notes and Coupons which the Trustee in its absolute discretion shall deem to be not materially less beneficial to the Noteholders or which shall be approved by an Extraordinary Resolution of the Noteholders provided that the Issuer or any Subsidiary of the Issuer may create or have outstanding Security with respect to Loan Stock (without the obligation to secure the Protected Notes and Coupons as aforesaid) if at the date of the creation thereof the Issuer and its Subsidiaries have and thereafter maintain free and clear of Security assets the fair market value of which (calculated on a consolidated basis) is at least twice the aggregate principal amount of all Loan Stock which is not secured by any such Security. **Loan Stock** is defined in the Trust Deed to mean indebtedness for the time being outstanding which is in the form of or represented or evidenced by bonds, notes, debentures, loan stock or other similar securities.

5. Interest

5.1 Interest on Fixed Rate Notes

Each Fixed Rate Note bears interest from (and including) the Interest Commencement Date at the rate(s) per annum equal to the Fixed Rate(s) of Interest payable in arrear on the Fixed Interest Date(s) in each year and on the Maturity Date if that does not fall on a Fixed Interest Date. The first payment of interest will be made on the Fixed Interest Date next following the Interest Commencement Date and, if the first anniversary of the Interest Commencement Date is not a Fixed Interest Date, will amount to the Initial Broken Amount. If the Maturity Date is not a Fixed Interest Date, interest from (and including) the preceding Fixed Interest Date (or the Interest Commencement Date, as the case may be) to (but excluding) the Maturity Date will amount to the Final Broken Amount.

If “Business Day Convention—Adjusted” is specified in the applicable Final Terms, (a) any Fixed Interest Date otherwise falling on a day which is not a Business Day (as defined in Condition 5.2 below) will be postponed or brought forward (as applicable) in accordance with the business day convention set out in the applicable Final Terms (as described below) which, for the avoidance of doubt, shall not be the Floating Rate Convention and (b) the amount of interest payable on such Fixed Interest Date will be adjusted accordingly and the provisions of Condition 5.2(d) (excluding the determination of the Rate of Interest) and Condition 5.2(f) (excluding the notification of the Rate of Interest) shall apply, *mutatis mutandis*, as though references to “Floating Rate Notes” were to “Fixed Rate Notes” and references to “Interest Amounts” were to amounts of interest payable in respect of Fixed Rate Notes.

If “Business Day Convention—Non-Adjusted” is specified in the applicable Final Terms, any Fixed Interest Date otherwise falling on a day which is not a Business Day will be postponed or brought forward (as applicable) in accordance with the business day convention set out in the applicable Final Terms (as described below) which, for the avoidance of doubt, shall not be the Floating Rate Convention and there will be no corresponding adjustment of the amount of interest payable on such Fixed Interest Date.

Except in the case of Notes in definitive form where an applicable 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 Notes which are represented by a Global Note, the aggregate outstanding nominal amount of the Fixed Rate Notes represented by such Global Note; or
- (b) in the case of Fixed Rate Notes 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 subunit of the relevant Specified Currency, half of any such subunit being rounded upwards or otherwise in accordance with applicable market convention. Where the Specified Denomination of a Fixed Rate Note in definitive form is a multiple of the Calculation Amount, the amount of interest payable in respect of such Fixed Rate Note shall be the product of the amount (determined in the manner provided above) for the Calculation Amount and the amount by which the Calculation Amount is multiplied to reach the Specified Denomination, without any further rounding.

5.2 Interest on Floating Rate Notes

(a) Interest Payment Dates

Each Floating Rate Note bears interest from (and including) the Interest Commencement Date at the rate equal to the Rate of Interest payable in arrear on either:

- (i) the Interest Payment Date(s) in each year (the period from (and including) the Interest Commencement Date to (but excluding) the first Interest Payment Date and each successive period from (and including) an Interest Payment Date to (but excluding) the next Interest Payment Date, each an **Interest Period**); or
- (ii) if no express Interest Payment Date(s) is/are specified in the applicable Final Terms, each date (each an Interest Payment Date) which falls the number of months or other period specified as the Interest Period in the applicable Final Terms after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Interest Commencement Date.

If any Interest Payment Date which is specified in the applicable Final Terms to be subject to adjustment in accordance with a business day convention would otherwise fall on a day which is not a Business Day, then, if the business day convention specified is:

- (A) in any case where Interest Periods are specified in accordance with Condition 5.2(a)(ii) above, the Floating Rate Convention, such Interest Payment Date shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event (I) such Interest Payment Date shall be brought forward to the immediately preceding Business Day and (II) each subsequent Interest Payment Date shall be the last Business Day in the month which falls the number of months or other period specified as the Interest Period in the applicable Final Terms after the preceding applicable Interest Payment Date occurred; or
- (B) the Following Business Day Convention, such Interest Payment Date shall be postponed to the next day which is a Business Day; or
- (C) the Modified Following Business Day Convention, such Interest Payment Date shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event such Interest Payment Date shall be brought forward to the immediately preceding Business Day; or

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

In this Condition, **Business Day** means:

- I. 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 each Additional Business Centre (other than TARGET2 System) specified in the applicable Final Terms;
- II. if TARGET2 System is specified as an Additional Business Centre in the applicable Final Terms, a day on which the TARGET2 System is open; and
- III. either (a) 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 (which, if the Specified Currency is Australian dollars or New Zealand dollars, shall be Sydney or Auckland, respectively) or (b) in relation to any sum payable in euro, a day on which the TARGET2 System is open.

(b) **Rate of Interest**

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

(i) **ISDA Determination for Floating Rate Notes**

Where ISDA Determination is specified in the applicable Final Terms as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period will be the relevant ISDA Rate plus or minus (as indicated in the applicable Final Terms) the Margin (if any).

For the purposes of this Condition 5.2(b)(i), **ISDA Rate** for an Interest Period means a rate equal to the Floating Rate that would be determined by the Agent or other person specified in the applicable Final Terms under an interest rate swap transaction if the 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 amended and updated as at the Issue Date of the first Tranche of the Notes and as published by the International Swaps and Derivatives Association, Inc. (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 the day specified in the applicable Final Terms.

For the purpose of this Condition 5.2(b)(i), (I) **Floating Rate, Calculation Agent, Floating Rate Option, Designated Maturity** and **Reset Date** have the meanings given to those terms in the ISDA Definitions and (II) the definition of **Banking Day** in the ISDA Definitions shall be amended to insert after the words “are open for” in the second line the word “general”.

(ii) **Screen Rate Determination for Floating Rate Notes**

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 upwards if necessary to the nearest 0.0001 per cent.) 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 (or such replacement page on that service which displays the information) at the Specified Time in the Relevant Financial Centre on the Interest Determination Date in question plus or minus the Margin (if any), all as determined by the 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 Agent for the purpose of determining the arithmetic mean (rounded as provided above) of such offered quotations.

The Agency Agreement contains provisions for determining the Rate of Interest in the event that the Relevant Screen Page is not available or if, in the case of (A) above, no such offered quotation appears or, in the case of (B) above, fewer than three such offered quotations appear, in each case as at the time specified in the preceding paragraph.

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

If the applicable Final Terms specifies a Minimum Rate of Interest for any Interest Period, then the Rate of Interest for such Interest Period shall in no event be less than such Minimum Rate of Interest and/or if it specifies a Maximum Rate of Interest for any Interest Period, then the Rate of Interest for such Interest Period shall in no event be greater than such Maximum Rate of Interest.

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

The Agent will, at or as soon as practicable after each time at which the Rate of Interest is to be determined, determine the Rate of Interest for the relevant Interest Period.

The Agent will calculate the amount of interest (each an **Interest Amount**) for the relevant Interest Period. Each Interest Amount shall be calculated by applying the Rate of Interest to:

- (A) in the case of Floating Rate Notes which are represented by a Global Note, the aggregate outstanding nominal amount of the Notes represented by such Global Note; or
- (B) in the case of Floating Rate Notes in definitive form, the Calculation Amount;

and, in each case, multiplying such sum by the Day Count Fraction specified in the applicable Final Terms. The resultant figure will be rounded as follows (or otherwise in accordance with applicable market convention):

- (i) all United States Dollar amounts used in or resulting from such calculations will be rounded to the nearest cent (with one half cent being rounded up);

- (ii) all Japanese Yen amounts used in or resulting from such calculations will be rounded downwards to the next lower whole Japanese Yen; and
- (iii) all amounts denominated in any other currency used in or resulting from such calculations will be rounded to the nearest two decimal places in such currency, with 0.005 being rounded upwards.

Where the Specified Denomination of a Floating Rate Note in definitive form is a multiple of the Calculation Amount, the amount of interest payable in respect of such Floating Rate Note shall be the product of the amount (determined in the manner provided above) for the Calculation Amount and the amount by which the Calculation Amount is multiplied to reach the Specified Denomination, without any further rounding.

(e) **Linear Interpolation**

Where Linear Interpolation is specified as applicable in respect of an Interest Period in the applicable Final Terms, the Rate of Interest for such Interest Period shall be calculated by the Agent by straight line linear interpolation by reference to two rates based on the relevant Reference Rate (where Screen Rate Determination is specified as applicable in the applicable Final Terms) or the relevant Floating Rate Option (where ISDA Determination is specified as applicable in the applicable Final Terms), one of which shall be determined as if the Designated Maturity were the period of time for which rates are available next shorter than the length of the relevant Interest Period and the other of which rates are available next longer than the length of the relevant Interest Period provided however that if there is no rate available for the period of time next shorter or, as the case may be, next longer, then the Agent shall determine such rate at such time and by reference to such sources as it determines appropriate.

Designated Maturity means, in relation to Screen Rate Determination, the period of time designated in the Reference Rate.

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

The Agent will cause the Rate of Interest and each Interest Amount for each Interest Period and the relative Interest Payment Date to be notified to the Trustee and to any listing authority, stock exchange and/or quotation system to which the Floating Rate Notes have then been admitted to listing, trading and/or quotation and to be published in accordance with Condition 19 as soon as possible after their determination but in no event later than the fourth Business Day (as defined in Condition 5.2(a) above) thereafter. 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 promptly be notified to each listing authority, stock exchange and/or quotation system to which the Floating Rate Notes have then been admitted to listing, trading and/or quotation and to the Noteholders in accordance with Condition 19.

(g) **Determination or calculation by Trustee**

If for any reason at any time after the Issue Date, the Agent defaults in its obligation to determine the Rate of Interest in accordance with Condition 5.2(b) above or the Agent defaults in its obligation to calculate any Interest Amount in accordance with Condition 5.2(d) above, the Trustee (or an agent acting on its behalf) shall (subject to it being indemnified and/or secured and/or prefunded to its satisfaction) 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 or Maximum Rate of Interest specified in the applicable Final Terms), it shall deem fair and reasonable in all the circumstances or, as the case may be, the Trustee (or an agent acting on its behalf) shall (subject to it being indemnified and/or secured and/or prefunded to its satisfaction) 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 Agent. The Trustee shall have no liability to any person in connection with any determination or calculation it is required to make pursuant to this Condition 5.2.

(h) **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 5.2, whether by the Agent or the Calculation Agent or the Trustee, shall (in the absence of wilful default, bad faith or manifest error) be binding on the Issuer, the Agent, the Calculation Agent, the Trustee, the other Paying Agents and all Noteholders and Couponholders and (in the absence as aforesaid) no liability to the Issuer, the Noteholders or the Couponholders shall attach to the Agent, the Calculation Agent or the Trustee in connection with the exercise or non-exercise by them of their powers, duties and discretions pursuant to such provisions.

5.3 Interest on Reset Notes

(a) **Rates of Interest and Interest Payment Dates**

Each Reset Note bears interest:

- (a) from (and including) the Interest Commencement Date specified in the applicable Final Terms to (but excluding) the First Reset Date at the rate per annum equal to the Initial Rate of Interest;
- (b) from (and including) the First Reset Date to (but excluding) the Second Reset Date or, if no such Second Reset Date is specified in the applicable Final Terms, the Maturity Date at the rate per annum equal to the First Reset Rate of Interest; and
- (c) if applicable, from (and including) the Second Reset Date to (but excluding) the first Subsequent Reset Date (if any), and each successive period from (and including) any Subsequent Reset Date to (but excluding) the next succeeding Subsequent Reset Date (if any) (each a **Subsequent Reset Period**) at the rate per annum equal to the relevant Subsequent Reset Rate of Interest,

(in each case rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards) payable, in each case, in arrear on the Interest Payment Date(s) in each year and on the Maturity Date so specified if that does not fall on an Interest Payment Date.

The Rate of Interest and the amount of interest (the **Interest Amount**) payable shall be determined by the Calculation Agent, (A) in the case of the Rate of Interest, at or as soon as practicable after each time at which the Rate of Interest is to be determined, and (B) in the case of the Interest Amount in accordance with the provisions for calculating amounts of interest in Condition 5.1 and, for such purposes, references in the fourth paragraph of Condition 5.1 to “Fixed Rate Notes” shall be deemed to be to “Reset Notes” and Condition 5.1 shall be construed accordingly.

In this Condition 5.3:

First Margin means the margin specified as such in the applicable Final Terms;

First Reset Date means the date specified in the applicable Final Terms;

First Reset Period means the period from (and including) the First Reset Date until (but excluding) the Second Reset Date or, if no such Second Reset Date is specified in the applicable Final Terms, the Maturity Date;

First Reset Rate of Interest means, in respect of the First Reset Period and subject to Condition 5.3(b), the rate of interest determined by the Calculation Agent on the relevant Reset

Determination Date as the sum, converted (if not already on the same basis) from a basis equivalent to the Fixed Leg Swap Duration or the Reference Bond Yield, as the case may be, to a basis equivalent to the frequency with which scheduled interest payments are payable on the Notes during the relevant Reset Period (such calculation to be determined by the Issuer in conjunction with a leading financial institution selected by it), of (A) the relevant Reset Reference Rate and (B) the First Margin;

Fixed Leg Swap Duration has the meaning specified in the applicable Final Terms;

Floating Leg Swap Duration has the meaning specified in the applicable Final Terms;

Initial Rate of Interest has the meaning specified in the applicable Final Terms;

Mid-Market Swap Rate means for any Reset Period the mean of the bid and offered rates for the fixed leg payable with a frequency equivalent to the Fixed Leg Swap Duration (calculated on the basis of the Day Count Fraction as specified in the applicable Final Terms as determined by the Calculation Agent) of a fixed-for-floating interest rate swap transaction in the Specified Currency which transaction (i) has a term equal to the relevant Reset Period and commencing on the relevant Reset Date, (ii) is in an amount that is representative for a single transaction in the relevant market at the relevant time with an acknowledged dealer of good credit in the swap market and (iii) has a floating leg based on the Mid-Swap Floating Leg Benchmark Rate for the Floating Leg Swap Duration (calculated on the basis of the Day Count Fraction as specified in the applicable Final Terms as determined by the Calculation Agent);

Mid-Market Swap Rate Quotation means a quotation (expressed as a percentage rate per annum) for the relevant Mid-Market Swap Rate;

Mid-Swap Floating Leg Benchmark Rate means EURIBOR if the Specified Currency is euro or LIBOR (or such successor or other benchmark rate as is customarily used as at the relevant Reset Determination Date in the floating leg of a fixed-for-floating interest rate swap transaction, as determined by the Issuer in consultation with the Calculation Agent) for the Specified Currency if the Specified Currency is not euro;

Mid-Swap Rate means, in relation to a Reset Determination Date and subject to Condition 5.3(b), either:

(i) if Single Mid-Swap Rate is specified in the applicable Final Terms, the rate for swaps in the Specified Currency:

(A) with a term equal to the relevant Reset Period; and

(B) commencing on the relevant Reset Date,

which appears on the Relevant Screen Page or such replacement page on that service which displays the information; or

(ii) if Mean Mid-Swap Rate is specified in the applicable Final Terms, the arithmetic mean (expressed as a percentage rate per annum and rounded, if necessary, to the nearest 0.001 per cent. (0.0005 per cent. being rounded upwards)) of the bid and offered swap rate quotations for swaps in the Specified Currency:

(A) with a term equal to the relevant Reset Period; and

(B) commencing on the relevant Reset Date,

which appear on the Relevant Screen Page or such replacement page on that service which displays the information,

in either case, as at approximately 11.00 a.m. in the principal financial centre of the Specified Currency on such Reset Determination Date, all as determined by the Calculation Agent provided, however, that if there is no such rate appearing on the Relevant Screen Page for a term

equal to the relevant Reset Period, then the Mid-Swap Rate shall be determined through the use of straight-line interpolation by reference to two rates, one of which shall be determined in accordance with the above provisions, but as if the relevant Reset Period were the period of time for which rates are available next shorter than the length of the actual Reset Period and the other of which shall be determined in accordance with the above provisions, but as if the relevant Reset Period were the period of time for which rates are available next longer than the length of the actual Reset Period;

Rate of Interest means the Initial Rate of Interest, the First Reset Rate of Interest or the Subsequent Reset Rate of Interest, as applicable;

Reference Bond means for any Reset Period a government security or securities issued by the state responsible for issuing the Specified Currency (which, if the Specified Currency is euro, shall be Germany) selected by the Issuer on the advice of an investment bank of international repute as having an actual or interpolated maturity comparable with the relevant Reset Period that would be utilised, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities denominated in the same currency as the Notes and of a comparable maturity to the relevant Reset Period.

Reference Bond Price means, with respect to any Reset Determination Date, (A) the arithmetic average of the Reference Government Bond Dealer Quotations for such Reset Determination Date, after excluding the highest and lowest such Reference Government Bond Dealer Quotations, or (B) if the Calculation Agent obtains fewer than four but more than one such Reference Government Bond Dealer Quotations, the arithmetic average of all such quotations, or (C) if the Calculation Agent obtains one such Reference Government Bond Dealer Quotations, the amount of such quotation, or (D) if the Calculation Agent obtains no such Reference Government Bond Dealer Quotations, the Reference Bond Price determined on the immediately preceding Reset Determination Date or, in the case of the first Reset Determination Date, as specified in the applicable Final Terms;

Reference Bond Reset Rate Time means the time specified in the applicable Final Terms;

Reference Bond Yield means the yield to maturity or interpolated yield to maturity (on the relevant day count basis) of the relevant Reference Bond;

Reference Government Bond Dealer means each of five banks (selected by the Issuer on the advice of an investment bank of international repute), or their affiliates, which are (A) primary government securities dealers, and their respective successors, or (B) market makers in pricing corporate bond issues;

Reference Government Bond Dealer Quotations means, with respect to each Reference Government Bond Dealer and the relevant Reset Determination Date, the arithmetic average, as determined by the Calculation Agent, of the bid and offered prices for the relevant Reference Bond (expressed in each case as a percentage of its nominal amount) at or around the Reference Bond Reset Rate Time on the relevant Reset Determination Date quoted in writing to the Calculation Agent by such Reference Government Bond Dealer;

Relevant Screen Page means the screen page specified in the applicable Final Terms;

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

Reset Date means the First Reset Date, the Second Reset Date and each Subsequent Reset Date (as applicable);

Reset Determination Date means, in respect of the First Reset Period, the second Reset Business Day prior to the First Reset Date, in respect of the first Subsequent Reset Period, the second Reset Business Day prior to the Second Reset Date and, in respect of each Subsequent Reset Period

thereafter, the second Reset Business Day prior to the first day of each such Subsequent Reset Period;

Reset Period means the First Reset Period or a Subsequent Reset Period, as the case may be;

Reset Reference Rate means either (i) if Mid-Swaps is specified in the applicable Final Terms the Mid-Swap Rate, or (ii) if Reference Bond is specified in the applicable Final Terms, the Reference Bond Yield, assuming a price for such Reference Bond (expressed as a percentage of its nominal amount) equal to the relevant Reference Bond Price;

Second Reset Date means the date specified in the applicable Final Terms;

Subsequent Margin means the margin specified as such in the applicable Final Terms;

Subsequent Reset Date means the date or dates specified in the applicable Final Terms; and

Subsequent Reset Rate of Interest means, in respect of any Subsequent Reset Period and subject to Condition 5.3(b), the rate of interest determined by the Calculation Agent on the relevant Reset Determination Date as the sum, converted (if not already on the same basis) from a basis equivalent to the Fixed Leg Swap Duration specified in the applicable Final Terms or the Reference Bond Yield, as the case may be, to a basis equivalent to the frequency with which scheduled interest payments are payable on the Notes during the relevant Reset Period (such calculation to be determined by the Issuer in conjunction with a leading financial institution selected by it), of (A) the relevant Reset Reference Rate and (B) the relevant Subsequent Margin.

(b) **Fallbacks**

If on any Reset Determination Date the Relevant Screen Page is not available or the Mid-Swap Rate does not appear on the Relevant Screen Page, the Calculation Agent shall request each of the Reference Banks (as defined below) to provide the Calculation Agent with its Mid-Market Swap Rate Quotation as at approximately 11.00 a.m. in the principal financial centre of the Specified Currency on the Reset Determination Date in question.

If two or more of the Reference Banks provide the Calculation Agent with Mid-Market Swap Rate Quotations, the First Reset Rate of Interest or the Subsequent Reset Rate of Interest (as applicable) for the relevant Reset Period shall be the sum (converted as set out in the definition of such term above) of the arithmetic mean (rounded, if necessary, to the nearest 0.001 per cent. (0.0005 per cent. being rounded upwards)) of the relevant Mid-Market Swap Rate Quotations and the First Margin or Subsequent Margin (as applicable), all as determined by the Calculation Agent.

If on any Reset Determination Date only one of the Reference Banks provides the Calculation Agent with a Mid-Market Swap Rate Quotation as provided in the foregoing provisions of this paragraph, the First Reset Rate of Interest or the Subsequent Reset Rate of Interest (as applicable) shall be the sum (converted as set out in the definition of such term above) of (rounded, if necessary, to the nearest 0.001 per cent. (0.0005 per cent. being rounded upwards)) of the relevant Mid-Market Swap Rate Quotation and the First Margin or Subsequent Margin (as applicable), all as determined by the Calculation Agent.

If on any Reset Determination Date none of the Reference Banks provides the Calculation Agent with a Mid-Market Swap Rate Quotation as provided in the foregoing provisions of this Condition 5.3(b), the First Reset Rate of Interest or the Subsequent Reset Rate of Interest (as applicable) shall be determined to be the rate of interest as at the last preceding Reset Date or, in the case of the first Reset Determination Date, the First Reset Rate of Interest shall be the Initial Rate of Interest.

For the purposes of this Condition 5.3(b), **Reference Banks** means the principal office in the principal financial centre of the Specified Currency of four major banks in the swap, money,

securities or other market most closely connected with the relevant Mid-Swap Rate as selected by the Issuer on the advice of an investment bank of international repute.

(c) **Notification of First Reset Rate of Interest, Subsequent Reset Rate of Interest and Interest Amount**

The Calculation Agent will cause the First Reset Rate of Interest, any Subsequent Reset Rate of Interest and, in respect of a Reset Period, the Interest Amount payable on each Interest Payment Date falling in such Reset Period to be notified to the Issuer, the Principal Paying Agent, the Trustee and any competent authority or stock exchange by or on which the relevant Reset Notes are for the time being listed and notice thereof to be published in accordance with Condition 19 as soon as possible after their determination but in no event later than the fourth London Business Day (as defined in Condition 5.2(d)) thereafter.

(d) **Determination or Calculation by an agent appointed by the Trustee**

If for any reason the Calculation Agent defaults in its obligation to determine the Rate of Interest or calculate any Interest Amount in accordance with Condition 5.3(a), the Trustee may (subject to it being indemnified and/or secured and/or prefunded to its satisfaction) appoint an agent to do so and such determination shall be deemed to have been made by the Calculation Agent. In doing so, such agent shall apply the foregoing provisions of this Condition 5.3 with any necessary consequential amendments, to the extent that, in its opinion, it can do so, and in all other respects it shall do so in such manner as it shall deem fair and reasonable in all the circumstances. Without prejudice to the provisions of Condition 5.3(e) below, the Trustee shall have no liability to any person in connection with any determination or calculation made by any agent so appointed pursuant to this Condition.

(e) **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 5.3 by the Calculation Agent or any agent appointed by the Trustee shall (in the absence of wilful default, bad faith or manifest error) be binding on the Issuer, the Trustee, the Calculation Agent, the other Paying Agents and all Noteholders and Couponholders and (in the absence as aforesaid) no liability to the Issuer, the Noteholders or the Couponholders shall attach to the Calculation Agent or the Trustee or any agent appointed by the Trustee in connection with the exercise or non-exercise by it of its powers, duties and discretions pursuant to such provisions.

5.4 Interest Accrual

Interest (if any) will cease to accrue on each Note on, but excluding, the due date for redemption thereof unless payment of principal is improperly withheld or refused in which event interest will continue to accrue as provided in the Trust Deed.

5.5 Day Count Fractions

In this Condition 5:

Day Count Fraction means, in respect of the calculation of an amount for any period of time in accordance with the applicable Final Terms for any Fixed Rate Note, Reset Note, or Floating Rate Note, as applicable:

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

(i) in the case of Notes where the number of days in the relevant period from (and including) the most recent Fixed Interest 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 that would occur in one calendar year; or

- (ii) in the case of Notes where the Accrual Period is longer than the Determination Period commencing on the last Fixed Interest Date on which interest was paid (or, if none, the Interest Commencement Date), the sum of:
 - I. the number of days in such Accrual Period falling in the Determination Period in which the Accrual Period begins divided by the product of (I) the number of days in such Determination Period and (II) the number of Determination Dates that would occur in one calendar year; and
 - II. the number of days in such Accrual Period falling in the next Determination Period divided by the product of (I) the number of days in such Determination Period and (II) the number of Determination Dates that would occur in one calendar year;
- (B) if **Actual/Actual (ISDA)** or **Actual/Actual** is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365 (or, if any portion of the Interest Period falls in a leap year, the sum of (I) the actual number of days in that portion of the Interest Period falling in a leap year divided by 366 and (II) the actual number of days in that portion of the Interest Period falling in a non-leap year divided by 365);
- (C) if **Actual/365 (Fixed)** is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365;
- (D) 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;
- (E) if **Actual/360** is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 360;
- (F) if **30/360**, **360/360** or **Bond Basis** is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

“Y1” is the year, expressed as a number, in which the first day of the Interest Period falls;

“Y2” is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

“M1” is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

“M2” is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

“D1” is the first calendar day, expressed as a number, of the Interest Period, unless such number is 31, in which case D1 will be 30; and

“D2” is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless such number would be 31 and D₁ is greater than 29, in which case D₂ will be 30;

- (G) if **30E/360** or **Eurobond Basis** is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

“Y1” is the year, expressed as a number, in which the first day of the Interest Period falls;

“Y2” is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

“M1” is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

“M2” is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

“D1” is the first calendar day, expressed as a number, of the Interest Period, unless such number would be 31, in which case D1 will be 30; and

“D2” is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless such number would be 31, in which case D2 will be 30; and

- (H) if **30E/360 (ISDA)** is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

“Y₁” is the year, expressed as a number, in which the first day of the Interest Period falls;

“Y₂” is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

“M₁” is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

“M₂” is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

“D₁” is the first calendar day, expressed as a number, of the Interest Period, unless (i) that day is the last day of February or (ii) such number would be 31, in which case D₁ will be 30; and

“D₂” is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless (i) that day is the last day of February but not the Maturity Date or (ii) such number would be 31, in which case D₂ will be 30.

and if no Day Count Fraction for Fixed Rate Notes or Reset Notes is specified in the applicable Final Terms then the Day Count Fraction for such Notes shall be **Actual/Actual (ICMA)** for Notes other than those denominated or payable in U.S. Dollars and **30/360** for Notes denominated or payable in U.S. Dollars;

Determination Period means the period from (and including) a Determination Date to (but excluding) the next Determination Date; and

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, means one cent.

6. Redemption and Purchase

6.1 Final redemption

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

6.2 Redemption for taxation reasons

If the Issuer at any time satisfies the Trustee immediately prior to the giving of the notice referred to below that:

- (a) (if this Note is an Ordinary Note or a Deposit Note) on the date of the next payment due in respect of the Notes, the Issuer would be required (i) to pay additional amounts as provided under Condition 10 or (ii) to account to any taxing authority in the United Kingdom for any amount (other than any tax withheld or deducted from interest payable on the Notes) calculated by reference to any amount payable in respect of the Notes; or
- (b) (if this Note is a Subordinated Note) a Tax Event has occurred,

and, in any such case, the Issuer cannot avoid the foregoing by taking reasonable measures available to it, then the Issuer may in its sole discretion (subject, if this Note is a Subordinated Note, to compliance with Condition 6.10), having given not less than 15 nor more than 30 days' notice to the Trustee, the Agent and, in accordance with Condition 19, the Noteholders (which notice shall be irrevocable), redeem at any time (if this Note is not a Floating Rate Note) or on any Interest Payment Date (if this Note is a Floating Rate Note) all, but not some only, of the Notes at their Early Redemption Amount referred to in Condition 6.7 below, together, if applicable, with interest accrued to (but excluding) the date fixed for redemption. Upon the expiry of such notice, the Issuer shall be bound to redeem the Notes accordingly.

A **Tax Event** will be deemed to have occurred if, as a result of a Tax Law Change:

- (i) in making any payments on the Subordinated Notes, the Issuer has paid or will or would on the next payment date be required to pay additional amounts as provided under Condition 10;
- (ii) the Issuer is no longer, or will no longer be, entitled to claim a deduction in respect of any payments in respect of the Subordinated Notes in computing its taxation liabilities or the amount of such deduction is or will be reduced;

- (iii) the Subordinated Notes are or will be prevented from being treated as loan relationships for United Kingdom tax purposes; or
- (iv) the Issuer is not, or will not be, able to have losses or deductions set against any profits or gains, or profits or gains offset by any losses or deductions, of companies with which it is or would otherwise be so grouped for applicable United Kingdom tax purposes (whether under the group relief system current as at the date of issue of the Subordinated Notes or any similar system or systems having like effect as may from time to time exist).

As used herein, **Tax Law Change** means any change in, or amendment to, the laws or regulations of the United Kingdom (including any treaty to which it is a party) or any political subdivision or any authority thereof or therein having power to tax, or any change in the official interpretation thereof by the relevant tax authority or in the application of such laws or regulations by a decision of any court or tribunal that provides for a position with respect to such laws or regulations that differs from the previously generally accepted position in relation to similar transactions or any pronouncement of a tax authority in the United Kingdom, which change or amendment becomes effective or, in the case of a change in law, if such change is enacted by a UK Act of Parliament or by Statutory Instrument, on or after the Issue Date.

6.3 Redemption following a Regulatory Event

This Condition 6.3 applies in respect of Subordinated Notes only.

If a Regulatory Event has occurred, then the Issuer may in its sole discretion, subject to compliance with Condition 6.10, and having given not less than 15 nor more than 30 days' notice to the Trustee, the Agent and, in accordance with Condition 19, the Noteholders (which notice shall be irrevocable), redeem at any time (if this Note is not a Floating Rate Note) or on any Interest Payment Date (if this Note is a Floating Rate Note) all, but not some only, of the Notes at their Early Redemption Amount referred to in Condition 6.7 below, together, if applicable, with interest accrued to (but excluding) the date fixed for redemption. Upon the expiry of such notice, the Issuer shall be bound to redeem the Notes accordingly.

A **Regulatory Event** is deemed to have occurred if there is a change (which has occurred or which the Supervisory Authority considers to be sufficiently certain) in the regulatory classification of the Subordinated Notes which becomes effective after the date of issue of the Notes and that results, or would be likely to result, in:

- (i) if “*Regulatory Event (Subordinated Notes only): Full Exclusion*” is specified in the applicable Final Terms, the entire principal amount of the Subordinated Notes being excluded from the Tier 2 Capital of the Issuer (whether on an individual or consolidated basis); or
- (ii) if “*Regulatory Event (Subordinated Notes only): Full or Partial Exclusion*” is specified in the applicable Final Terms, the entire principal amount of the Subordinated Notes or any part thereof being excluded from the Tier 2 Capital of the Issuer (whether on an individual or consolidated basis).

6.4 Redemption at the option of the Issuer

If so specified in the applicable Final Terms, the Issuer may in its sole discretion (subject, if this Note is a Subordinated Note, to compliance with Condition 6.10) having given not less than the minimum period nor more than the maximum period of notice specified in the applicable Final Terms to the Noteholders in accordance with Condition 19 (which notice shall be irrevocable), redeem all or some only (as specified in the applicable Final Terms) of the Notes then outstanding on the Optional Redemption Date(s) and at the Optional Redemption Amount(s) as specified in the applicable Final Terms. Upon expiry of such notice the Issuer shall be bound to redeem the Notes accordingly.

In the event of a redemption of some only of the Notes, such redemption must be for an amount being the Minimum Redemption Amount or a Higher Redemption Amount. In the case of a partial redemption of Notes, the Notes to be redeemed (**Redeemed Notes**) will be selected individually by lot, in the case of Redeemed Notes represented by definitive Notes, and in accordance with the rules of Euroclear and/or Clearstream, Luxembourg (to be reflected in the records of Euroclear and Clearstream, Luxembourg as either a pool factor or a reduction in nominal amount, at their discretion), in the case of Redeemed Notes represented by a Global Note, not more than 35 days prior to the date fixed for redemption (such date of selection being hereinafter called the **Selection Date**). In the case of Redeemed Notes represented by definitive Notes, a list of such Redeemed Notes will be published in accordance with Condition 19 not less than the minimum period specified in the applicable Final Terms prior to the date fixed for redemption. No exchange of the relevant Global Note will be permitted during the period from (and including) the Selection Date to (and including) the date fixed for redemption pursuant to this Condition 6.4 and notice to that effect shall be given by the Issuer to the Noteholders in accordance with Condition 19 at least 15 days prior to the Selection Date.

6.5 Redemption at the option of the Noteholders (other than holders of Subordinated Notes)

This Condition 6.5 does not apply to Subordinated Notes.

If and to the extent specified in the applicable Final Terms (unless this Note is a Subordinated Note), upon the holder of this Note giving to the Issuer, in accordance with Condition 19, not less than the minimum period nor more than the maximum period of notice specified in the applicable Final Terms (which notice shall be irrevocable), the Issuer will, upon the expiry of such notice, redeem in whole (but not in part) such Note on the Optional Redemption Date and at the relevant Optional Redemption Amount as specified in the applicable Final Terms, together, if applicable, with interest accrued to (but excluding) the relevant Optional Redemption Date.

If this Note is in definitive form, to exercise the right to require redemption of this Note the holder of this Note must deliver such Note, on any Business Day (as defined in Condition 5.2(a)) falling within the notice period at the specified office of any Paying Agent, accompanied by a duly signed and completed notice of exercise in the form (for the time being current) obtainable from any specified office of any Paying Agent (a Put Notice) and in which the holder must specify a bank account (or, if payment is by cheque, an address) to which payment is to be made under this Condition.

6.6 Late Payment on Zero Coupon Notes

If the amount payable in respect of any Zero Coupon Note upon redemption of such Zero Coupon Note pursuant to Condition 6.1, 6.2, 6.3, 6.4 or 6.5 above or upon its becoming due and repayable as provided in Condition 11 (if this Note is not a Subordinated Note) or Condition 12 (if this Note is a Subordinated Note) is improperly withheld or refused, the amount due and repayable in respect of such Zero Coupon Note shall be the amount calculated as provided in Condition 6.7(c) below as though the references therein to the date fixed for redemption or the date upon which such Zero Coupon Note becomes due and repayable were replaced by references to the date which is the earlier of:

- (a) the date on which all amounts due in respect of the Zero Coupon Note have been paid; and
- (b) the date on which the full amount of the moneys payable has been received by the Agent or the Trustee and notice to that effect has been given to the Noteholders either in accordance with Condition 19 or individually.

6.7 Early Redemption Amounts

For the purposes of Conditions 6.2 and 6.3 above and Condition 11 (if this Note is not a Subordinated Note) or Condition 12 (if this Note is a Subordinated Note), each Note will be redeemed at an amount (the **Early Redemption Amount**) calculated as follows:

- (a) (in the case of Notes other than Zero Coupon Notes) at the amount specified in the applicable Final Terms, or, if no such amount is so set out:
 - (i) in the case of Fixed Rate Notes or Reset Notes, at an amount determined by the Calculation Agent (in its absolute discretion) whereby such amount payable by the Issuer in respect of principal and interest (if any) accrued to (but excluding) the date of such early redemption of each Note shall, taking into account any accrued interest payable on such early redemption, have the effect of preserving for the holder of that Note the economic equivalent of the obligations of the Issuer to pay (A) the Final Redemption Amount specified in the applicable Final Terms which would, but for such early redemption, have been payable on the Maturity Date and (B) the interest (if any) in respect of that Note on such date(s) and in such amount(s) determined in accordance with Condition 5 above and specified in the applicable Final Terms which would, but for such redemption, have been payable up to (and including) the Maturity Date; or
 - (ii) in the case of Floating Rate Notes, at an amount equal to the nominal amount of each Note; or
- (b) in the case of Zero Coupon Notes, 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 Notes to (but excluding) the date fixed for redemption or (as the case may be) the date upon which such Note becomes due and repayable as is provided in the applicable Final Terms.
- (c) Where such calculation is to be made for a period which is not a whole number of years, it shall be made (i) in the case of a Zero Coupon Note other than a Zero Coupon Note payable in euro, on the basis of a 360 day year consisting of 12 months of 30 days each or (ii) in the case of a Zero Coupon Note payable in euro, on the basis of the actual number of days elapsed divided by 365 (or, if any of the days elapsed falls in a leap year, the sum of (A) the number of those days falling in a leap year divided by 366 and (B) the number of those days falling in a non-leap year divided by 365).

6.8 Purchases

The Issuer or any of its Subsidiaries (as defined in the Trust Deed) may (subject, if this Note is a Subordinated Note, to compliance with Condition 6.10 and prevailing Regulatory Capital Requirements) at any time purchase or otherwise acquire Notes (provided that, in the case of definitive Notes, all unmatured Coupons appertaining thereto are attached thereto or surrendered therewith) in any manner and at any price. Notes purchased by the Issuer or any of its Subsidiaries may, at the option of the Issuer or such Subsidiary, be held, reissued, resold or surrendered for cancellation.

6.9 Cancellation

All Notes which are (a) redeemed in full or (b) purchased by or on behalf of the Issuer or any Subsidiary of the Issuer and surrendered for cancellation, will forthwith be cancelled (together with, in the case of definitive

Notes, all unmatured Coupons attached thereto or surrendered therewith) and such Notes may not be reissued or resold.

6.10 Preconditions to redemption and purchase of Subordinated Notes

This Condition 6.10 applies to Subordinated Notes only.

Any redemption or purchase of the Subordinated Notes in accordance with Conditions 6.2, 6.3, 6.4 or 6.8 is subject to:

- (a) the Issuer having obtained Relevant Supervisory Consent therefor;
- (b) either: (A) the Issuer having replaced the Notes with own funds instruments of equal or higher quality at terms that are sustainable for the income capacity of the Issuer; or (B) the Issuer having demonstrated to the satisfaction of the Supervisory Authority that the own funds of the Issuer would, following such redemption or purchase, exceed its minimum capital requirements (including any capital buffer requirements) by a margin that the Supervisory Authority considers necessary at such time; and
- (c) in the case of any redemption prior to the fifth anniversary of the Issue Date, (A) in the case of redemption upon a Tax Event, the Issuer having demonstrated to the satisfaction of the Supervisory Authority that the change in tax treatment is material and was not reasonably foreseeable as at the Issue Date, or (B) in the case of redemption upon the occurrence of a Regulatory Event, the Issuer having demonstrated to the satisfaction of the Supervisory Authority that the relevant change in the regulatory classification of the Notes was not reasonably foreseeable as at the Issue Date.

Notwithstanding the foregoing, if, at the time of any redemption or purchase, the prevailing Regulatory Capital Requirements permit a repayment or purchase only after compliance with one or more additional or alternative preconditions to those set out above in this Condition 6.10, the Issuer shall comply (in addition or in the alternative, as the case may be) with such additional and/or alternative precondition(s).

Prior to the publication of any notice of early redemption upon a Tax Event pursuant to Condition 6.2 or a Regulatory Event pursuant to Condition 6.3, the Issuer shall deliver to the Trustee a certificate signed by any two authorised signatories (for the purposes of the Trust Deed) of the Issuer stating that the relevant requirement or circumstance giving rise to the right to redeem has been satisfied. The Trustee shall be entitled, without liability to any person, to accept such certificate without any further inquiry as sufficient evidence of the satisfaction of the relevant requirement or circumstance, in which event it shall be conclusive and binding on the Trustee and the Noteholders.

In these Terms and Conditions, **Relevant Supervisory Consent** means, in relation to any action, such permission or waiver of the Supervisory Authority as is then required for such action under prevailing Regulatory Capital Requirements.

7. Payments

7.1 Method of Payment

Subject as provided below:

- (a) payments in a currency other than euro will be made by transfer to an account in the relevant Specified Currency maintained by the payee with, or by a cheque in such Specified Currency drawn on, a bank in the principal financial centre of such Specified Currency (which, if the Specified

Currency is Australian dollars or New Zealand dollars, shall be Sydney or 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 by a euro cheque.

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 10, 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 (the **Code**) or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, any official interpretations thereof, or any law implementing an intergovernmental approach thereto. References in these Terms and Conditions to **Specified Currency** will include any successor currency under applicable law.

7.2 Presentation of Notes and Coupons

Subject as provided below, payments of principal and interest (if any) in respect of definitive Notes (if issued) will be made against presentation and surrender of definitive Notes or Coupons, as the case may be, at any specified office of any Paying Agent.

Payments of principal and interest (if any) in respect of Notes represented by any Global Note will (subject as provided below) be made in the manner specified above in relation to definitive Notes or otherwise in the manner specified in the relevant Global Note, where applicable against presentation or surrender, as the case may be, of such Global Note, at the specified office of any Paying Agent. A record of each payment made, distinguishing between any payment of principal and any payment of interest, will be made either on such Global Note by the Paying Agent to which it was presented or in the records of Euroclear and Clearstream, Luxembourg, as applicable.

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

Notwithstanding the foregoing:

- (a) the Issuer reserves the right to require Couponholders who do not make a declaration (such declaration being to the satisfaction of Her Majesty's Revenue and Customs (**HMRC**)) that they are not resident in the United Kingdom to present their Coupons at a specified office of a Paying Agent situated outside the United Kingdom if the Issuer would otherwise be obliged to account to any taxing authority in the United Kingdom for any amount in respect of income tax (other than any tax withheld or deducted from interest payable on the Notes) calculated by reference to the interest represented by the relevant Coupon; and
- (b) payments of interest in U.S. Dollars will only be made at the specified office of any Paying Agent in the United States (which expression, as used herein, means the United States of America (including the States and District of Columbia and its possessions)) (i) if (A) the Issuer shall have appointed Paying Agents with specified offices outside the United States with the reasonable expectation that

such Paying Agents would be able to make payment at such specified offices outside the United States of the full amount of interest on the Notes in the manner provided above when due, (B) payment of the full amount of such interest at such specified offices outside the United States is illegal or effectively precluded by exchange controls or other similar restrictions and (C) such payment is then permitted under United States law without involving, in the opinion of the Issuer, adverse tax consequences to the Issuer and (ii) at the option of the relevant holder if such payment is then permitted under United States law without involving, in the opinion of the Issuer, adverse tax consequences to the Issuer.

Fixed Rate Notes in definitive form 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).

If a Fixed Rate Note (other than a Subordinated Note) is presented without all unmatured Coupons relating thereto, then:

- (a) if the aggregate amount of the missing Coupons is greater than the principal amount of such Note, such amount of such missing Coupons shall become void (in inverse order of maturity) as will result in the aggregate amount of the remainder of such missing Coupons (the **Relevant Coupons**) being equal to the principal amount of such Note; provided that, where this subparagraph would otherwise require a fraction of a missing Coupon to become void, such missing Coupon shall become void in its entirety; and
- (b) a sum equal to the aggregate amount of the Relevant Coupons (or, if less, the principal amount of such Note) will be deducted from the amount of principal due for payment; provided that, if the gross amount available for payment is less than the principal amount of such Note, the sum deducted will be that proportion of the aggregate amount of the Relevant Coupons (or, as the case may be, the principal amount of such Note) which the gross amount actually available for payment bears to the principal amount of such Note.

Each amount of principal so deducted will be paid in the manner mentioned above against surrender of the relevant missing Coupon at any time before the expiry of ten years after the Relevant Date (as defined in Condition 10) in respect of such principal (whether or not such Coupon would otherwise have become void under Condition 13) or, if later, five years from the date on which such Coupon would otherwise have become due.

Upon any Fixed Rate Note becoming due and repayable prior to its Maturity 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 Note, Reset Note or Subordinated Note which is also a Fixed Rate Note in definitive form, all unmatured Coupons and Talons (if any) relating to such Note (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.

7.3 Payment Day

If any date for payment of any amount in respect of any Note or Coupon is not a Payment Day (as defined below), then 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, Payment Day means:

- (a) a day on which commercial banks settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in:
 - (i) in the case of Notes in definitive form only, the relevant place of presentation; and
 - (ii) each Additional Financial Centre (other than TARGET2 System) specified in the applicable Final Terms;
- (b) if TARGET2 System is specified as an Additional Financial Centre in the applicable Final Terms, a day on which the TARGET2 System is open; and
- (c) either (A) 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 (which if the Specified Currency is Australian dollars or New Zealand dollars shall be Sydney or Auckland, respectively) or (B) in relation to any sum payable in euro, a day on which the TARGET2 System is open.

If the due date for redemption of any interest bearing Note in definitive form is not a due date for the payment of interest relating thereto, interest accrued in respect of such interest bearing Note from (and including) the last preceding due date for the payment of interest (or from (and including) the Interest Commencement Date, as the case may be) will be paid only against surrender of such interest bearing Note.

7.4 Interpretation of Principal and Interest

Any reference in these Terms and Conditions to principal in respect of the Notes shall be deemed to include, as applicable:

- (a) any additional amounts which may be payable with respect to principal under Condition 10 or pursuant to any undertakings given in addition thereto or in substitution therefor pursuant to the Trust Deed;
- (b) the Final Redemption Amount of the Notes;
- (c) the Early Redemption Amount of the Notes;
- (d) the Optional Redemption Amount(s) (if any) of the Notes;
- (e) in relation to Zero Coupon Notes, the Amortised Face Amount; and
- (f) any premium and any other amounts (other than interest) which may be payable under or in respect of the Notes.

Any reference in these Terms and Conditions to interest in respect of the Notes shall be deemed to include, as applicable, any additional amounts which may be payable with respect to interest under Condition 10 or pursuant to any undertakings given in addition thereto or in substitution therefor pursuant to the Trust Deed.

8. Exchange of Talons

On and after the Interest Payment Date or the Fixed Interest Date (as appropriate) 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 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 Note to which it appertains) a further Talon, subject to the provisions of Condition 13.

9. Agent and Paying Agents

The names of the initial Agent and the other initial Paying Agents and their initial specified offices are set out below. If any additional Paying Agents are appointed in connection with any Series, the names of such Paying Agents will be specified in Part B of the applicable Final Terms. In the event of the appointed office of any such bank being unable or unwilling to continue to act as the 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 Trustee to act as such in its place. The Agent may not resign its duties or be removed from office without a successor having been appointed as aforesaid. The Issuer may, with the prior approval of the Trustee, vary or terminate the appointment of any Paying Agent and/or appoint additional or other Paying Agents and/or approve any change in the specified office through which any Paying Agent acts provided that the Issuer will, so long as any of the Notes is outstanding, maintain (a) a Paying Agent (which may be the Agent) having a specified office in a city approved by the Trustee in continental Europe, and (b) so long as any of the Notes have been admitted to listing, trading and/or quotation by any listing authority, stock exchange and/or quotation system, a Paying Agent (which may be the Agent) having a specified office in each location required by the rules and regulations of the relevant listing authority, stock exchange and/or quotation system. In addition, the Issuer shall forthwith appoint a Paying Agent having a specified office in New York City in the circumstances described in subparagraph (b) of the fourth paragraph of Condition 7.2.

Notice of any such variation, termination, appointment or change will be given by the Issuer to the Noteholders in accordance with Condition 19.

10. Taxation

All payments of principal and interest (if any) in respect of the Notes and Coupons by or on behalf of the Issuer shall be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatsoever nature imposed, or levied by or on behalf of the United Kingdom or any political subdivision thereof or by or on behalf of any authority thereof or therein having power to tax, unless the withholding or deduction for, or on account of, such taxes, duties, assessments or governmental charges is required by law. In that event, the Issuer will (i) in the case of Ordinary Notes and Deposit Notes, in respect of payments of interest (if any) or principal, or (ii) in the case of Subordinated Notes, in respect of payments of interest (if any) only, pay such additional amounts as may be necessary in order that the net amounts received by the Noteholders or, as the case may be, Couponholders after such withholding or deduction shall equal the respective amounts of (in the case of Ordinary Notes and Deposit Notes only) principal and (in the case of any Notes) interest (if any) which would have been receivable in respect of the Notes or, as the case may be, Coupons in the absence of such withholding or deduction; except that no such additional amount shall be payable in respect of any Note or Coupon:

- (a) presented for payment by or on behalf of a holder who is liable to such taxes, duties, assessments or governmental charges in respect of such Note or Coupon by reason of his having some connection with the United Kingdom other than the mere holding of such Note or Coupon; or
- (b) presented for payment in the United Kingdom; or
- (c) presented for payment more than 30 days after the Relevant Date except to the extent that the holder thereof would have been entitled to such additional amounts on presenting the same for payment on such thirtieth day assuming that day to have been a Payment Day (as defined in Condition 7.3); or

- (d) where the holder is able to avoid such withholding or deduction by presenting an appropriate certificate.

Notwithstanding any other provision of these Terms and Conditions, in no event will additional amounts be payable by (or on behalf of) the Issuer under this Condition 10 or otherwise in respect of any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the Code or otherwise imposed pursuant to Sections 1471 through 1474 of the Code (or any regulations or agreements thereunder or any official interpretations thereof) or an intergovernmental agreement between the United States and another jurisdiction facilitating the implementation thereof or any law implementing such an intergovernmental agreement.

As used herein, the **Relevant Date** means the date on which the relevant payment in respect of the Note or Coupon first becomes due and payable but, if the full amount of the moneys payable on such date has not been received by the Agent or the Trustee on or prior to such due date, the **Relevant Date** means the date on which such moneys shall have been so received and notice to that effect shall have been given to the Noteholders in accordance with Condition 19.

For the avoidance of doubt, if this Note is a Subordinated Note, the Issuer will not pay any additional amounts under this Condition 10 in respect of principal of this Note.

11. Events of Default and enforcement relating only to Ordinary Notes and Deposit Notes

11.1 This Condition shall apply only to Ordinary Notes and Deposit Notes.

11.2 The Trustee at its discretion may, and if so requested in writing by the holders of at least one quarter of the nominal amount of the Notes then outstanding or if so directed by an Extraordinary Resolution of the Noteholders shall, subject to being indemnified and/or secured and/or prefunded to its satisfaction (but, in the case of the happening of any of the events mentioned in subparagraphs (b), (c) and (d) below in relation to the Issuer or any Principal Subsidiary (as defined below) or, in the case of the happening of any of the events mentioned in subparagraphs (e) and (f) below in relation to a Principal Subsidiary, only if the Trustee shall have certified that in its opinion such event is materially prejudicial to the interests of the Noteholders) give notice to the Issuer that the Notes are, and they shall immediately become, due and repayable as set out below, if any of the following events shall occur and be continuing:

- (a) the Issuer fails to pay any principal or interest in respect of the Notes within seven days of the due date; or
- (b) the Issuer defaults in performance or observance of or compliance with any of its other undertakings set out in the Notes or the Trust Deed which default is incapable of remedy or which, if capable of remedy, is not in the opinion of the Trustee remedied within 30 days (or such longer period as the Trustee may permit) after notice requiring remedy of such default shall have been given to the Issuer by the Trustee; or
- (c)
 - (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 therefor 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
- (d) 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
- (e) 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 15 or for the purpose of a reconstruction, union, transfer, merger or amalgamation effected with the prior written consent of the Trustee, or in the case of a 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
- (f) an order is made or an effective resolution is passed 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, merger or amalgamation effected with the consent of the Trustee 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 15).

Principal Subsidiary means a Subsidiary of the Issuer whose total assets (attributable to the Issuer) represent 10 per cent. 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 Trust Deed) 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 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.

- 11.3 If the Notes become due and repayable pursuant to this Condition, they shall be repayable at the Early Redemption Amount together (where applicable) with accrued interest as provided in the Trust Deed.

11.4 At any time after the Notes become due and repayable the Trustee may, at its discretion and without further notice, take such proceedings against the Issuer as it may think fit to enforce repayment of the Notes, but it shall not be bound to take any such proceedings unless (i) it shall have been so directed by an Extraordinary Resolution of the Noteholders or so requested in writing by Noteholders holding at least one-quarter in nominal amount of the Notes then outstanding and (ii) it shall have been indemnified and/or secured and/or prefunded to its satisfaction. No Noteholder or Couponholder may proceed directly against the Issuer unless the Trustee, having become bound to proceed, fails to do so and such failure is continuing.

12. Events of Default and enforcement relating only to Subordinated Notes

12.1 This Condition shall apply only to Subordinated Notes.

12.2 *Non-payment when due:* If default is made for a period of seven days or more in the payment of any principal due on the Notes or any of them or for a period of 14 days or more in the payment of any interest due on the Notes or any of them, the Trustee at its discretion may, and if so requested in writing by the holders of at least one-quarter of the nominal amount of Notes then outstanding or if so directed by an Extraordinary Resolution of the Noteholders shall (subject to being indemnified and/or secured and/or prefunded to its satisfaction), institute proceedings for the winding up of the Issuer in England (but not elsewhere) to enforce the obligations of the Issuer in respect of the Notes and the Trust Deed in so far as it relates to the Notes, but may take no other action in respect of such default (except as provided in Condition 12.3).

12.3 *Winding up or dissolution:* In the event of a winding up or dissolution of the Issuer (other than an Excluded Dissolution), whether or not instituted by the Trustee pursuant to Condition 12.2, the Trustee at its discretion may, and if so requested in writing by the holders of at least one-quarter of the nominal amount of Notes then outstanding or if so directed by an Extraordinary Resolution of the Noteholders shall (subject to being indemnified and/or secured and/or prefunded to its satisfaction), give notice to the Issuer (or the relevant official presiding over such winding up or dissolution) that the Notes are, and they shall accordingly immediately become, due and repayable at their Early Redemption Amount together (if applicable) with accrued interest as provided in the Trust Deed, and shall claim and/or prove in such winding up or dissolution in respect of the Notes (such claim being subordinated as provided in Condition 3(a)).

12.4 *Enforcement:* Without prejudice to Conditions 12.2 and 12.3, the Trustee may at its discretion and without notice institute such steps, actions or proceedings against the Issuer as it may think fit to enforce any term or condition binding on the Issuer under the Trust Deed or the Notes (other than any payment obligation of the Issuer under or arising from the Notes or the Trust Deed, including, without limitation, payment of any principal or interest in respect of the Notes, including any damages awarded for breach of any obligations) and in no event shall the Issuer, by virtue of the institution of any such steps, actions or proceedings, be obliged to pay any sum or sums, in cash or otherwise, sooner than the same would otherwise have been payable by it pursuant to these Terms and Conditions and the Trust Deed, nor will the Trustee accept the same, otherwise than during or after a winding up or dissolution of the Issuer.

12.5 *Rights of holders:* No Noteholder or Couponholder shall be entitled to proceed directly against the Issuer unless the Trustee, having become bound so to proceed, fails to do so, in which case any such holder shall have only such rights against the Issuer as those which the Trustee is entitled to exercise. No such holder shall be entitled to institute proceedings for the winding up of the Issuer, or to prove in any winding up or dissolution of the Issuer, except that if the Trustee, having become bound to proceed against the Issuer as aforesaid, fails to do so, or, being able to prove in any winding up of the Issuer, fails to do so, then any such holder may, on giving an indemnity satisfactory to the Trustee, in the name of the Trustee (but not otherwise) himself institute proceedings for the winding up in

England (but not elsewhere) of the Issuer and/or prove in any winding up or dissolution of the Issuer to the same extent (but not further or otherwise) that the Trustee would have been entitled so to do in respect of such Notes and/or Coupons held by him.

12.6 *Extent of remedy:* No remedy against the Issuer, other than the institution of proceedings for the winding up in England of the Issuer and/or the proving or claiming in any winding up or dissolution of the Issuer, shall be available to the Trustee, the Noteholders or the Couponholders for the recovery of amounts owing in respect of such Notes or the relative Coupons or under the Trust Deed in so far as it relates to the Notes or the relative Coupons.

12.7 The Trustee may at its discretion institute such proceedings as are contemplated by this Condition against the Issuer to enforce the obligations of the Issuer under the Trust Deed in so far as it relates to the Notes or the relative Coupons, but it shall not be bound to institute any such proceedings unless (a) it shall have been so directed by an Extraordinary Resolution of the holders of the Notes or so requested in writing by Noteholders holding at least one-quarter in nominal amount of the Notes then outstanding and (b) it shall have been indemnified and/or secured and/or prefunded to its satisfaction.

13. Prescription

Claims for payment of principal in respect of the Notes shall become void upon the expiry of ten years, and claims for payment of interest (if any) in respect of the Notes shall become void upon the expiry of five years, in each case from the Relevant Date therefor, subject to the provisions of Condition 7.

14. Meetings of Noteholders, Modification and Waiver

The Trust Deed contains provisions for convening meetings of Noteholders (or, as the case may be, the holders of Notes of more than one Series) to consider any matter affecting their interests, including the modification by Extraordinary Resolution of these Terms and Conditions or the provisions of the Trust Deed.

The quorum at any such meeting to consider an Extraordinary Resolution will be one or more persons holding or representing a clear majority of the nominal amount of the Notes for the time being outstanding, or at any adjourned meeting one or more persons being or representing Noteholders whatever the nominal amount of the Notes for the time being outstanding so held or represented, except that at any meeting, the business of which includes the modification of certain of these Terms and Conditions or provisions of the Trust Deed, the necessary quorum for passing an Extraordinary Resolution will be one or more persons holding or representing not less than two-thirds, or at any adjourned such meeting not less than one-third, of the nominal amount of the Notes for the time being outstanding.

The Trust Deed provides that (i) a resolution passed at a meeting duly convened and held in accordance with the Trust Deed by a majority consisting of not less than three-fourths of the votes cast on such resolution, (ii) a resolution in writing signed by or on behalf of the holders of not less than three-fourths in nominal amount of the Notes for the time being outstanding or (iii) consent given by way of electronic consents through the relevant clearing system(s) (in a form satisfactory to the Trustee) by or on behalf of the holders of not less than three-fourths in nominal amount of the Notes for the time being outstanding, shall, in each case, be effective as an Extraordinary Resolution of the Noteholders. An Extraordinary Resolution passed at any meeting of Noteholders will be binding on all Noteholders, whether or not they are present at the meeting, and on all Couponholders.

The Trust Deed provides that the Trustee may agree, without the consent of the Noteholders or Couponholders, to any modification (subject to certain exceptions) of, or to the waiver or authorisation of any breach or proposed breach of, any of these Terms and Conditions or any of the provisions of the Trust Deed which is not, in the opinion of the Trustee, materially prejudicial to the interests of the Noteholders or to any modification which is of a formal, minor or technical nature or which is made to correct a manifest error. Any

such modification, waiver or authorisation shall be binding on the Noteholders and Couponholders and, unless otherwise agreed by the Trustee, any such modification shall be notified to the Noteholders as soon as practicable thereafter in accordance with Condition 19.

In connection with the exercise by it of any of its trusts, powers or discretions (including, without limitation, any modification, waiver, authorisation or substitution), the Trustee shall have regard to the interests of the Noteholders as a class and, in particular but without limitation, shall not have regard to the consequences of the exercise of its trusts, powers or discretions for individual Noteholders or Couponholders resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory and the Trustee shall not be entitled to require, nor shall any Noteholder or Couponholder be entitled to claim, from the Issuer, or any other person any indemnification or payment in respect of any tax consequence of any such exercise upon individual Noteholders or Couponholders except to the extent already provided for in Condition 10 and/or any undertaking given in addition to, or in substitution for, Condition 10 pursuant to the Trust Deed.

15. Substitution

15.1 Provisions relating to Ordinary Notes and Deposit Notes

- (a) Subject as provided in the Trust Deed, the Trustee, if it is satisfied that so to do would not be materially prejudicial to the interests of the Noteholders, may agree, without the consent of the Noteholders 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 Act or a building society to which the Issuer has transferred all of its engagements pursuant to Section 94 of the Act or the successor in accordance with Section 97 of the Act, in place of the Issuer as principal debtor under the Ordinary Notes or Deposit Notes and the Trust Deed in respect of the Notes, 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 Notes and the Trust Deed in respect thereof shall be guaranteed by the Issuer or such successor in business in such form as the Trustee may require.
- (b) The Issuer has covenanted with the Trustee in the Trust Deed that it will not transfer its business to a successor in accordance with Section 97 of the Act unless either (i) the Trustee is satisfied that the successor will be or (as the case may be) remain an authorised person under the FSMA (or any statutory modification or reenactment thereof) or (ii) such transfer is approved by an Extraordinary Resolution of the Noteholders.

15.2 Provisions relating to Subordinated Notes

The Issuer has covenanted with the Trustee in the Trust Deed that if it transfers its business to a company (the **Transferee Company**) within the meaning of the Companies Act 1985 pursuant to Section 97 of the Act then, upon such transfer becoming effective:

- (a) it will either deliver evidence reasonably satisfactory to the Trustee that the Transferee Company is an authorised person for the purposes of the FSMA (or any statutory modification or reenactment thereof) or, if such evidence is not so delivered, procure that such transfer is approved by an Extraordinary Resolution of the Noteholders; and
- (b) it will, and will procure that the Transferee Company will, execute a deed supplemental to the Trust Deed which has the effect of ensuring to the reasonable satisfaction of the Trustee that (i) the Transferee Company is bound by the terms of the Trust Deed in respect of the Subordinated Notes and these Terms and Conditions as fully as if all and any references therein to the Issuer were

references to the Transferee Company and (ii) the rights of the holders of the Subordinated Notes and any relative Coupons (A) are subordinated and postponed to the claims of the persons who are holders of investment shares which are qualifying shares (as defined in Section 100(3) of the Act) in the Issuer in respect of claims arising by virtue of Section 100(2)(a) of the Act and which are represented by those qualifying shares and to the claims of other unsecured but unsubordinated creditors of the Transferee Company but (B) will be such that they rank in priority to the holders of the issued share capital of the Transferee Company, and containing such other provisions as the Trustee (having regard in particular to the foregoing) may reasonably require; provided that no variation or supplement to the terms of the Trust Deed or of these Terms and Conditions shall be made in any such supplemental deed which would or might cause any of the own funds or capital resources of the Issuer which at that time are considered appropriate by the Prudential Regulation Authority for inclusion in the calculation of the Issuer's capital adequacy for the purposes of paragraph 4(1) of Schedule 6 to the FSMA and to which such terms relate, to be excluded from the own funds or capital resources which at that time are considered appropriate by the Prudential Regulation Authority for inclusion in the calculation of the Transferee Company's capital adequacy for the purposes of paragraph 4(1) of Schedule 6 to the FSMA.

15.3 Provisions relating to all Notes

- (a) The Issuer has covenanted with the 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 Act unless it transfers all its engagements to such society or such transfer has been approved by the Trustee or by an Extraordinary Resolution of the Noteholders.
- (b) If the Issuer shall amalgamate with one or more other building societies pursuant to Section 93 of the Act or transfer all of its engagements to another building society pursuant to Section 94 of the Act or transfer the whole of its business to a successor in accordance with Section 97 of the Act, the successor will, pursuant to such provisions, automatically be substituted in place of the Issuer as principal debtor under the Trust Deed, the Notes and any Coupons without any prior approval thereof being required from the Noteholders, the Couponholders or the Trustee (but without prejudice to the provisions of Conditions 15.1(b) and 15.2 above).
- (c) Any substitution pursuant to this Condition 15 shall be binding on the Noteholders and the Couponholders and, unless the Trustee agrees otherwise, shall be notified to the Noteholders as soon as practicable thereafter in accordance with Condition 19.

16. Further Issues

The Issuer is at liberty from time to time without the consent of the Noteholders or Couponholders to create and issue further notes ranking equally in all respects (or in all respects save for the date for and the amount of the first payment of interest thereon) and so that the same shall be consolidated and form a single series with the outstanding Notes of a particular Series.

17. Replacement of Notes, Coupons and Talons

If a Note (including any Global Note), Coupon or Talon is mutilated, defaced, destroyed, stolen or lost it may be replaced at the specified office of the Agent in London, or any other place approved by the Trustee of which notice shall have been published in accordance with Condition 19, on payment of such costs 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 Notes, Coupons or Talons must be surrendered before replacements will be issued.

18. Indemnification of, and transactions by, the Trustee

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility in certain circumstances including provisions relieving it from instituting proceedings to enforce repayment unless indemnified and/or secured and/or prefunded to its satisfaction. The Trustee is entitled to enter into business transactions with the Issuer or any Subsidiary of the Issuer without accounting for any profit resulting therefrom.

19. Notices

All notices regarding the Notes will be valid if published in the Financial Times or any other daily newspaper in London approved by the Trustee. The Issuer shall also ensure that all notices are duly published in a manner which complies with the rules and regulations of any listing authority, stock exchange and/or quotation system on which the Notes have then been admitted to listing, trading, and/or quotation (including publication on the website of the relevant stock exchange or relevant authority if required by those rules and regulations). Any such notice shall be deemed to have been given on the date of such publication or, if published more than once or on different dates, on the date of the first publication in all the required newspapers. If publication as aforesaid is not practicable, notices will be valid if given in such other manner and shall be deemed to have been given on such date as the Issuer and the Trustee may determine. Couponholders will be deemed for all purposes to have notice of the contents of any notice given to the Noteholders in accordance with this Condition.

Until such time as any definitive Notes are issued, there may, so long as any Global Note is held in its entirety on behalf of Euroclear and/or Clearstream, Luxembourg, be substituted for such publication as aforesaid the delivery of the relevant notice to Euroclear and/or Clearstream, Luxembourg for communication by them to the Noteholders. Any such notice shall be deemed to have been given to the Noteholders on the day on which the said notice was given to Euroclear and/or Clearstream, Luxembourg, as appropriate.

Notices to be given by any Noteholder shall be in writing and given by lodging the same, together with the relative Note or Notes, with the Agent. Whilst any of the Notes are represented by a Global Note, such notice may be given by any Noteholder to the Agent via Euroclear and/or Clearstream, Luxembourg, as the case may be, in such manner as the Agent and Euroclear and/or Clearstream, Luxembourg, as the case may be, may approve for this purpose.

20. Governing Law

The Trust Deed, the Notes, the Coupons and the Talons and any non-contractual obligations arising out of or in connection with them shall be governed by, and will be construed in accordance with, English law.

21. Contracts (Rights of Third Parties) Act 1999

No rights are conferred on any person under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of this Note, but this does not affect any right or remedy of any person which exists or is available apart from that Act.

22. Definitions

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

euro means the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty on the Functioning of the European Union, as amended; and

TARGET2 System means the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET2) System.

USE OF PROCEEDS

The net proceeds from each issue of Notes will be applied for general purposes of the Issuer including without limitation, making mortgage advances on private residential property located in the United Kingdom and making a profit.

DESCRIPTION OF THE SOCIETY

Overview

The Society is a building society, incorporated in England and Wales under the United Kingdom 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. The Society's FCA Mutuals Public Register Number is 355B. The principal office of the Society is Nationwide Building Society, Nationwide House, Pipers Way, Swindon, SN38 1NW (phone number +44 (0) 1793 656 363). The Society is the largest building society in the United Kingdom in terms of total assets, with £222 billion of assets as at 4 April 2017. It is the UK's second largest provider of mortgages and third largest provider of savings, according to the Society's estimates based on publicly available data published by the BoE and other financial institutions. The Society has approximately 15 million members and customers as at the date of this Base Prospectus.

The Society's core business is providing personal financial services, including:

- residential mortgage loans;
- retail savings;
- general retail banking services;
- personal investment products;
- insurance; and
- personal secured and unsecured lending.

In addition, the Society maintains an investment portfolio of debt securities for its own account.

As a mutual organisation, the Society is managed for the benefit of its “members”, its current account, retail savings and residential mortgage customers, rather than for equity shareholders. The main focus of the Society is serving its members' interests while retaining sufficient profit to increase and further develop its business and meet regulatory requirements. The Society returns value to its members by offering typically higher interest rates on savings and lower interest rates on loans than those offered by its main competitors. This returned value is commonly referred to as its member financial benefit. As a result of returning value to its members, the Society earns lower pre-tax profits than its main competitors, which are typically banks or other non-mutual organisations.

Group profits on ordinary activities after tax for the year ended 4 April 2017 and the year ended 4 April 2016 were £757 million and £985 million, respectively. The Group's lending activities are predominantly concentrated on secured lending, with residential mortgages accounting for 91 per cent. of its total loans and advances to customers as at 4 April 2017.

The information contained in this section headed “*Description of the Society*” has been provided by the Society and other sources identified in this section. Any information provided by a third party has been accurately reproduced and as far as the Society is aware and is able to ascertain from information published by that third party, no facts have been omitted which would render the reproduced information inaccurate or misleading.

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 current account, retail savings and residential mortgage customers. The Society's origins date back to the Southern Co-operative Permanent Building Society (1884). Over time, this entity merged with similar organisations to create Nationwide Building Society.

Over the past 30 years, many building societies have merged with other building societies or, 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 the Society's competitors are banks. The Society believes that its mutual status allows it to compete successfully with banks, and it is the strategy of the Society to remain a building society. At its annual general meeting in 1998, its 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 the competitors of the Society that were building societies demutualised, the Society experienced a sharp increase in the number of new United Kingdom member retail savings accounts. It believes that many of these accounts were opened because customers expected the Society to demutualise and wanted to receive any associated windfall distributions. To prevent the disruption caused by speculative account opening, the Society has generally required all new members opening accounts after November 1997 to assign to charity any windfall benefits they might otherwise have received as a result of a future demutualisation.

The Society has been involved in a number of mergers and acquisitions in recent years. It merged with Portman Building Society in August 2007 and with Cheshire Building Society and Derbyshire Building Society in December 2008. In March and June 2009 it also acquired selected assets and liabilities of Dunfermline Building Society. It believes these developments have added value to the Society, improved its distribution footprint and helped to grow the membership and are a testament to the strength of the Society and its ability to provide support to other building societies.

Strategy

Following a strategic review during 2016/2017, the Issuer has decided to centre its strategy around its core purpose of being a building society, nationwide. The refreshed strategy is founded upon a rigorous re-evaluation of the Society's strengths and an assessment of the way in which the financial services industry has evolved in recent years. The Society has engaged its members through live 'Talkbacks', suggestion schemes and through its 5,000 strong online 'Member Connect' community. Most recently it engaged employees through the 'Big Conversation', an opportunity for all Nationwide Building Society employees to share their views on how the Society is run.

This led the Society to reconsider what activities it should engage in, starting with those where it can leverage the power of mutuality. As a result of this process, the Society believes that its founding focus on mortgages and savings remains as relevant today as it was when it was founded in the 19th century. Additionally, it believes that increasing the size of its current account base remains a logical extension of its purpose, by fulfilling its members' day to day financial needs and strengthening their mutual relationship. The Society will continue to offer a broad range of financial services that complements its core products of mortgage, savings and current accounts.

The strategy refresh will ensure the Society is delivering the services and customer experience its members want in 2017 and beyond. Its core purpose is 'building society, nationwide' and the Society has defined five interconnected cornerstones which support its purpose and strategy. Its strategic targets and key performance indicators have been reviewed and amended in line with the strategy refresh. They are described in detail below.

Built to Last

The Society's members want to be assured that it is secure and dependable in order to entrust it with their savings. To meet their expectations, the Society needs to be built to last by:

- generating a level of profit sufficient to meet regulatory capital and future business investment requirements;
- focusing on how it spends members' money through driving a culture of efficiency;
- maintaining a prudent approach to risk management, operating at all times within Board risk appetite; and
- supporting member expectations of 'always on' through the resilience of the Society's operations.

The Society has developed a financial performance framework based on the fundamental principle of maintaining its capital at a prudent level in excess of regulatory requirements. The framework provides parameters which allow it to calibrate future performance and help ensure that it achieves the right balance between distributing value to members, investing in the business and maintaining financial strength. The most important of these parameters is underlying profit which is a key component of the Society's capital. In this context, the Society currently believes that generating underlying profit of approximately £0.9 billion to £1.3 billion per annum over the medium-term is an appropriate target for capital planning purposes. This range is based on its current assumptions around the size of the mortgage market and maintaining a UK leverage ratio in excess of 4.0 per cent. This range, which will vary from time to time, should not be construed as a forecast of the likely level of the Society's underlying profit for any financial year or period within a financial year.

In addition, the Society's is seeking to ensure that its financial performance will be supported by a renewed focus on efficiency. Whilst cost income ratio was previously the Society's main measure of efficiency, the Society has, as at 4 April 2017, set a target to deliver £300 million of sustainable cost savings by 2022, intended to be delivered across a range of initiatives, including 'right first time' member service, third party procurement reviews, process automation and digitised service delivery, as well as targeted restructuring activity.

Building PRIDE

PRIDE is the internal symbol of the Issuer's culture and values. It guides the Society to serve its members to the best of its ability and support its people in doing the right thing. PRIDE means:

- Putting members and their money first;
- Rising to the challenge;
- Inspiring trust;
- Doing the right thing in the right way; and
- Excelling at relationships.

In connection with PRIDE, the Issuer aims at better equipping its personnel by:

- developing leadership and high potential talent to create a more empowered and agile workforce;
- growing its capabilities across the business to equip all of its people to make decisions in the interests of members; and
- inspiring them and invigorating the Society's culture through its PRIDE values.

The Issuer is and intends to remain one of the UK's best places to work. Having highly engaged and enabled employees is a key source of competitive advantage, as the Issuer strives to have industry leading levels of customer satisfaction and to grow its business.

Building Legendary Service

The Society's ambition is for members to experience its service as heartfelt, easy, lifelong and personal. It aims to have industry leading service levels by:

- investing in its high street presence to transform the branch experience;
- using technology to enhance the experience through both branches and mobile;
- deploying the people and technology to enable members to interact with the Society whenever and however they choose; and
- delivering on members' expectations by getting it right first time.

Building Thriving Membership

The more members the Society has, the more it can help them achieve their goals, whether it is owning a home or saving for the future. The Issuer will deliver real value to its thriving membership by:

- delivering a membership proposition that recognises loyalty by rewarding its most committed members;
- building relationships with young families through enhanced products and services; and
- building depth in its core products of mortgages, savings and current accounts.

Building a National Treasure

The Society's ambition is to be considered a 'national treasure' in British society, in particular for its members and for the public to trust it and to believe that the Society makes a difference to people's lives. The Issuer will strengthen its position as one of the most respected organisations in the UK by:

- leading by example, being an influencer and acknowledged expert in its field;
- improving awareness of the Nationwide brand and its mutual difference;
- engaging with members through their preferred channels of communication; and
- aligning the Society's social investment agenda with its purpose of building society, nationwide, through a focus on housing initiatives.

Lending

The lending activities of the Society are primarily concentrated on residential mortgage lending in the United Kingdom. It also engages in a limited amount of commercial secured lending and unsecured consumer lending.

United Kingdom Residential Mortgage Lending to Individuals

The vast majority of the lending portfolio of the Society consists of United Kingdom 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. The Society's policy is for all residential mortgage loans to individuals to be fully secured first priority loans on the mortgaged property, to ensure that the Society's claim to the property, in the event of default, is senior to those of other potential creditors. As a result, its residential mortgage lending to individuals carries lower risk than many other types of lending.

As at 4 April 2017, the Group was the second largest mortgage lender in the United Kingdom (as measured by total loans outstanding) (as calculated by the Society based on Bank of England data and publicly available financial information). As at 4 April 2017, its total prime and specialist residential mortgage lending amounted to £171.1 billion (£162.1 billion as at 4 April 2016). Its residential mortgages are generally for terms of 20 to 30 years. While many customers remain with the Society for much or all of this term, some customers redeem their mortgage earlier than this in order to remortgage to another lender or for other reasons. The minimum life of a mortgage is usually between two and five years, depending on the terms of the customer's initial product, although the Society generally retains approximately 85 to 90 per cent. of customers when they reach the end of a product.

The Society has a national franchise within the United Kingdom, with a regional distribution of United Kingdom residential mortgage lending to individuals generally matching the regional Gross Domestic Product distribution in the United Kingdom.

Below is a table showing the geographical distribution of the Society's United Kingdom residential mortgage loans as at 4 April 2017:

	UK residential mortgage lending to individuals as at 4 April 2017
	<i>(percentages)</i>
Region	
Greater London	34
Central England	18
Northern England.....	15
South East England (excluding London)	12
South West England.....	9
Scotland	7
Wales and Northern Ireland.....	5
Total	100

Source: CACI Limited

The Society offers fixed rate and tracker rate mortgages. These products establish a set rate or set methodology for determining a variable rate for a set term, after which the rate reverts to one of its two general variable rates. Its fixed-rate products currently offer a term of two, three, four, five or ten years, but it has from time to

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

To reduce the costs associated with early repayment of mortgages and to recover a portion of the costs of mortgage incentives, the Society imposes early repayment charges on some products. The early repayment charges generally apply for repayment, made prior to the expiration of the fixed or tracker rate for the particular product.

The asset quality of the Society has remained strong, which the Society believes is evidence of its continued prudent lending standards. The Group is committed to supporting the housing market, and first time buyers in particular. The Group's gross and net market shares as at 4 April 2017 were 14.0 per cent. and 25.4 per cent. respectively, compared with the Group's gross and net market shares of 13.7 per cent and 21.4 per cent. respectively for the year ended 4 April 2016. The LTV profile of new lending, weighted by volume, increased to 71 per cent. (4 April 2016: 69 per cent.). The indexed LTV for the whole residential portfolio remained at 55 per cent. (4 April 2016: 55 per cent.) on a value basis attributable to the increase in house prices over the year. The proportion of the Group's mortgage accounts three months or more in arrears has remained stable at 0.45 per cent. as at 4 April 2017 (4 April 2016: 0.45 per cent.), this compares favourably with the CML industry average of 0.91 per cent.

The following table sets forth a breakdown of the Society's loans in arrears as at 4 April 2017 (calculated on a value basis):

	Prime and specialist residential and lending as at 4 April 2017
	<i>(percentages)</i>
3-6 months	0.2
6-12 months	0.2
Over 12 months.....	0.1

The Society utilises an automated credit scoring system to assist in minimising credit risk on residential mortgage lending. The Society's credit procedures for residential mortgage lending take into account the applicant's credit history, loan-to-value criteria, income multiples and an affordability calculation, or shock test, that tests the applicant's ability to service the loan at higher interest rates.

The Society focuses its residential mortgage sales efforts on first-time buyers, subsequent purchasers moving home and the remortgage market. In current market conditions, the Society is particularly keen to support its existing members and it has 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 36 per cent. during the year ended 4 April 2017 with 64 per cent. to experienced buyers (compared to 28 per cent. of residential mortgage advances to first-time buyers and 72 per cent. to experienced buyers for the year ended 4 April 2016).

In addition to residential mortgage loans, the Society offers further secured advances on existing mortgaged property to customers consistent with its lending criteria for new residential mortgage loans.

Specialist UK Residential Mortgage Lending to Individuals

The Group offers 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 2017, the Group's outstanding specialist UK residential mortgage lending to individuals was £33.3 billion. The specialist residential mortgage balance is made up of advances made through its specialist lending brands, The Mortgage Works (UK) plc (TMW) and UCB Home Loans Limited, and from the acquisitions of the Cheshire, Derbyshire and Dunfermline building societies' portfolios. Its 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 Society having withdrawn from the self-certified lending market in 2009. A breakdown of the Society's specialist UK residential mortgage lending outstanding balances as at 4 April 2016 is shown in the table below:

	Specialist UK residential mortgage lending to individuals at 4 April 2017
	<i>(percentages)</i>
Buy-to-let.....	91
Self-certified	6
Near prime	2
Sub prime.....	1
Total	100

TMW is an important provider of high-quality loans to the buy-to-let sector. The Group's total specialist mortgage book stood at £33.3 billion as at 4 April 2017 (4 April 2016: £32.2 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. The Group's specialist mortgages continue to perform well with cases three months or more in arrears representing only 0.89 per cent. of the total mortgage book as at 4 April 2017 (4 April 2016: 0.90 per cent.), which compares favourably to the overall industry measure (*Source*: UK Finance), that is inclusive of prime lending, of 0.91 per cent. as at 4 April 2017 (4 April 2016: 1.04 per cent.).

Commercial Secured Lending

The Society engages in commercial secured lending, which at 4 April 2017 accounted for 6 per cent. of its total loan assets. Following a strategic review of the commercial lending business, it was concluded that it is no longer a good fit with the core purpose of the Society. The strategy for the commercial lending portfolio is to hold and actively manage to maturity in line with contractual terms.

The amount and types of loans in the commercial portfolio as at 4 April 2017 were as follows:

	As at 4 April 2017	
	£ billion	% of total commercial loans
Commercial Real Estate	2.6	23
Registered Social Landlords	7.5	67

Project Finance	1.1	10
Total	11.2	100

Loans made to UK registered social landlords are secured on residential property and differ significantly from other loans secured on real property. UK registered social landlords provide affordable housing supported by government grants. This portfolio historically has carried a lower risk than the Society's other commercial lending activities, and there are currently no arrears of three months or more in the Society's Registered Social Landlord portfolio. To date the Society has not needed to raise any loss provisions against this portfolio. The Society is 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. Again, the Group has never suffered any losses on lending in these markets and there are currently no arrears of three months or more.

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

Consumer Lending

The Society engages in consumer lending, which accounted for 2 per cent. of its total loan assets as at 4 April 2017 and 2 per cent. of its total loan assets as at 4 April 2016.

Unsecured Consumer Lending

Unsecured consumer lending consists of loans that the Society makes to individuals that are not secured on real or personal property. It offers 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 the Society has no security if the borrower defaults on the loan. Accordingly, unsecured consumer lending products bear higher interest rates than the residential mortgage products of the Society. To manage this risk, it uses an automated credit scoring system that is designed to evaluate a borrower's ability to repay the loan. In addition, the Society imposes a maximum limit on the size of unsecured consumer loans and encourages customers to take out PPI.

For information regarding the Society's credit card and overdraft facilities, see the sub-sections entitled "*Other Banking Services – Credit Cards*" and "*Other Banking Services – Current Accounts*".

Retail Funding

The great majority of the Society's retail funding is in the form of UK retail member deposits. In addition, the Society accepts offshore deposits and deposits which do not convey member status. As at 4 April 2017, the Society had UK retail member deposits of £144.5 billion, which is an increase of £5.8 billion from £138.7 billion as at 4 April 2016. UK retail member deposits represented 65.2 per cent. of the Society's total members' interests, equity and liabilities at 4 April 2017.

The Society provides 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, it determines variable interest rates at its discretion according to market conditions. Generally, the more restrictions on withdrawal of retail savings, the higher the rate of interest. Balances on all of the Society's notice deposit accounts are, by their terms, withdrawable on demand but, in some cases, subject to loss of interest.

The Society believes that the primary determinant for attracting retail savings is the interest rate offered to savers. As a mutual organisation, it typically sets higher interest rates on its retail funding products than those set by its main competitors. The Society gathers UK retail member deposits from a number of sources, chiefly from its branch network but also by mail and internet-based deposit accounts.

The UK retail member 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

In 2017, the Society achieved a new milestone, becoming the UK's top choice for current accounts according to Nationwide Brand and Advertising tracker compiled by Independent Research Agency. A combination of strong growth and good retention took the Society's market share of main standard and package current accounts to 7.5 per cent. at February 2017, up from 7.1 per cent. last year. A record 795,000 current accounts were opened with the Society over the year to 4 April 2017, an increase of 35 per cent. over the previous year. This included 147,000 new youth accounts, a market share of 14.3 per cent. in the youth market. A further 169,000 people chose FlexPlus, the Society's award-winning account. The Society strongly supports financial inclusion by providing customers access to a full banking service with its FlexBasic account. The Society also continues to benefit from high switching rates through the Current Account Switch Service, with some 165,000 current account holders switching to Nationwide Building Society – an 18 per cent. share of the total personal switcher market. The Society is delighted to have recently become Which? 'Banking Brand of the Year 2017'.

Credit Cards

The Society began issuing Nationwide-branded Visa credit cards to its customers in 1997. The Society markets and processes credit card applications itself (using its credit scoring system), and an outside contractor is responsible for billing and customer service functions. Credit card holders receive differing credit limits, depending on their credit score. The Society does not charge customers an annual fee for using the credit card.

Credit card lending has remained stable with overall balances at 4 April 2017 of £1.7 billion (4 April 2016: £1.7 billion).

Offshore Savings

During the year a strategic decision was taken to exit the Nationwide International business. This resulted in a £3.6 billion decrease in balances, representing the majority of the deposits associated with this business. The Society also announced the closure of its Republic of Ireland operations.

These outflows have been managed in an orderly manner with the funding being replaced by additional member deposits and the use of wholesale funding where appropriate.

Business Savings

The Society offers a range of business savings accounts to UK-domiciled small and medium sized enterprises, including companies, housing associations, charities and educational organisations. It provides a wide range of savings products that may be repayable on demand or on notice and which may pay a variable or fixed rate of interest. On all business savings products, the Society determines variable interest rates at its discretion according to market conditions. Generally, the more restrictions on withdrawal of business savings, the higher the rate of interest. As of 4 April 2017 balances were £3 billion.

Other Banking Services

The Society also provides its customers with foreign currency exchange and equity dealing services. It acts as an agent in providing these services and assumes no foreign exchange or equity price risk as a result of this activity.

Treasury Operations

The Treasury function of the Society centrally manages its liquid asset portfolios as well as most of its financial risk exposures, and raises funds on the money and debt capital markets.

The Treasury function manages risk exposures, including market risk, by making use of derivative instruments such as swaps, futures and options, which reduce the Society's exposure to changes in interest rates and currency rates.

The Group's liquidity and investment portfolio on the balance sheet at 4 April 2017 of £25.4 billion (compared to 4 April 2016: £23.1 billion) comprises liquid assets (£22.0 billion), other securities (£0.8 billion) and loans and advances to banks (£2.6 billion). The size of the portfolio reflects fluctuations in market prices, the Society's operational and strategic liquidity requirements and legacy asset disposals.

The Society raises 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 £55.5 billion as at 4 April 2017 from £45.8 billion as at 4 April 2016.

The Society aims to achieve a diversified mix of wholesale funding by currency, investor category and maturity to prevent dependence on any particular funding sector. The Society has a variety of programmes in place so that it can meet its 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 programme (Silverstone master trust).

The Society does not operate a trading portfolio.

Protection and Investments

Income from protection and investments has grown to £78 million for the year ended 4 April 2017, from £73 million for the year ended 4 April 2016.

Insurance

In conjunction with its core business of providing residential mortgage loans and retail savings, the Society develops and markets insurance products branded with its name that are underwritten by third-party insurers. The Society sold its subsidiary Nationwide Life Limited to Legal & General on 31 January 2008 and as a

result it no longer underwrites its own life assurance products. As part of an agreement, the Society distributes the insurance products of Legal & General. The Society has also entered into a new strategic distribution agreement for the supply of motor and travel insurance with Liverpool Victoria to provide its 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 marketed by the Society are:

- buildings and contents insurance, which the Society markets to its 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 per cent. of gross income in case of unemployment;
- motor insurance; and
- personal accident insurance.

The Society typically uses leading insurers as third-party underwriters for these insurance products. It receives a commission and, in some cases, participates in the profits, but not the losses, from third-party underwritten insurance products that it markets. This provides the Society with a significant source of non-interest income, and in the financial years ended 4 April 2017 and the year ended 4 April 2016 it earned £81 million and 78 million, respectively, from general insurance fees. It generally markets its insurance products to new and existing customers, and it is the Society's policy to offer insurance products at competitive prices and with more comprehensive coverage than those products generally offered by the main competitors of the Society.

Distribution Network

The Society's integrated and diversified distribution network allows its customers to choose how and when to undertake their transactions with the Society and has enabled it to expand the Society's business while controlling costs. The distribution network helps the Society to achieve volume growth principally in residential mortgage lending and supports its retail funding activities. Developments in the network have focused on cost efficiency and meeting the needs of customers who are increasingly prepared to transact business by the internet, telephone and mail.

The Society distributes its products primarily through:

- branches;
- call centres;
- mail;
- internet (e-commerce); and
- intermediaries.

The Society also maintains a network of ATMs.

Branches

The branch network of the Society continues to be a major source of its mortgage lending and retail funding. As at 4 April 2017 it had approximately 691 branches of Nationwide Building Society in the United Kingdom and the Isle of Man. The Society believes that its branch network is an integral part of its distribution network and expects to maintain its current size.

The Society's goal is to utilise its branch network efficiently. All of its branches market its residential mortgage, retail savings, personal lending, personal investment and insurance products. The Society has continued to make significant investment in transforming its products and delivery channels through the implementation of new systems and organisational structures and to meet consumer expectations of digital banking.

The Society has announced the closure of its Isle of Man and Republic of Ireland operations. Amounts due to customers include £1,960 million (2016: £5,540 million) with respect to balances deposited with these operations.

Call Centres

The telephone call centres of the Society are open 24 hours a day to service customers and receive calls from potential customers that are interested in its products. In addition, it uses telemarketing to supplement its mortgage, insurance and personal loan marketing.

Mail

The Society offers mail-based savings accounts that provide members with higher interest rates on their deposits in return for limiting them to transactions by mail, online banking and ATMs. The Society also uses direct mail to market some of its products.

E-commerce

The Society first launched an internet banking service in 1997 and has continued to update its service in line with technological advances and increasing customer expectations. Its website allows customers to transact on their accounts and apply for a broad range of its products online.

Intermediaries

A substantial amount of the mortgage sales of the Society are introduced to it by third-party intermediaries. Intermediaries range from large United Kingdom insurance companies to small independent mortgage advisers. The Society remunerates intermediaries for introducing mortgage business.

ATMs

The Society had approximately 1,378 ATMs as at 4 April 2017, including some placed in retail stores, train stations, petrol stations and other remote locations. In addition, the Society's customers also have access to ATMs in the United Kingdom through the LINK network and Cirrus networks and world-wide through the VISA network.

Employees

For the year ended 4 April 2017, the Society employed, on average, 18,761 full and part-time employees. Set out below are the average number of employees of the Society during the years ended 4 April 2017, 2016 and 2015, respectively:

	For the year ended 4 April		
	2017	2016	2015
Full-time	14,746	14,190	13,667
Part-time	4,015	3,919	3,955
Total	18,761	18,109	17,622

The Society is party to a collective bargaining agreement with the Nationwide Group Staff Union and believes that its relationship with its employees is good. The Society has never experienced any work stoppages.

Principal Subsidiaries

The interests of the Society in its principal subsidiary undertakings, all of which are consolidated, as at 4 April 2017, 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
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 United Kingdom.

The Society has interests in structured entities. A structured entity is an entity in which voting or similar rights are not the dominant factor in deciding control. Structured entities are consolidated when the substance of the relationship indicates control.

The interests of the Society in these principal entities as at 4 April 2017 are set out below:

Other 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
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Properties

The Society's property interests consist of its branches and non-specialised buildings which may be owned or leased, as well as its head office/administration centres (which it owns) and a small number of residential properties held for rental. For further information see note 29 to the Society's audited consolidated financial statements for the year ended 4 April 2017 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 was levied in respect of the anticipated shortfall in repaying these loans in an amount of £753 million (reduced, through refunds, to £653 million in August 2017). The process of repaying the remaining loan balance of £15.6 billion relating to the failure of Bradford and Bingley has now commenced with UKAR confirming that it has agreed to sell two separate asset portfolios of Bradford and Bingley plc in order to repay the £16 billion loan outstanding to HM Treasury. The first asset portfolio sale transaction was completed on 25 April 2017, reducing the loan outstanding to HM Treasury to approximately £5 billion. As a result, the annual FSCS charge in relation to interest costs and management expenses has reduced significantly to £15 million (2016: £46 million) for the 2017/18 scheme year. The second sales transaction is anticipated to be completed by March 2018.

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 2017, the Society held a provision of £42 million in respect of the interest relating to scheme years 2016/17 and 2017/18. As at 4 April 2016, the Society held a provision of £84 million in respect of the interest relating to scheme years 2015/16 and 2016/17.

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 and is based on the chargeable equity and liabilities at the relevant balance sheet date. 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, repos secured on sovereign debt, retirement benefit obligations and tax liabilities. Additionally, certain high quality liquid assets on the balance sheet are eligible to reduce the amount of 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 per cent.) on banking companies and building societies within the charge to corporation tax which took effect from 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.

The bank levy rates applicable are:

Period	Rates	
	Short-term liabilities	Long-term liabilities
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 Board of Directors

The business is under the control of the Society's 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 Society'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 the Society of the persons on the board of directors and their private interests or other duties.

Management and Director Changes

Roger Perkin, a non-executive member of the Board of Directors, did not stand for re-election and resigned from the Board, following the annual general meeting on 21 July 2016. Mai Fyfield and Tim Tookey were elected on this date.

Joe Garner was appointed to the Board on 5 April 2016, Kevin Parry on 23 May 2016, Baroness Usha Prashar on 18 January 2017 and Gunn Waersted on 1 June 2017.

The following table presents information with respect to current directors:

Name	Age	Position	Other Directorships
David Roberts	54	Chairman	Campion Willcocks Ltd Dr. Challoner's Grammar School (Governor)
Joe Garner	48	Chief Executive Officer	British Triathlon Foundation Trust Newta Limited
Mark Rennison	56	Chief Financial Officer	Arkose Funding Limited Confederation Mortgage Services Limited Exeter Trust Limited First Nationwide LBS Mortgages Limited Nationwide Anglia Property Services Limited Nationwide Housing Trust Limited Nationwide Investments (No.1) Limited

Name	Age	Position	Other Directorships
			Nationwide Lease Finance Limited Nationwide Mortgage Corporation Limited Nationwide Syndications Limited NBS Fleet Services Limited Piper Javelin Holding Company Limited Piper Javelin No1 Limited Staffordshire Leasing Limited
Chris Rhodes	54	Chief Products and Propositions Officer	at.home nationwide Limited Derbyshire Home Loans Limited E-Mex Home Funding Limited Jubilee Mortgages Limited National Numeracy (Trustee) The Lending Standard Board Limited The Mortgage Works (UK) plc U C B Home Loans Corporation Limited
Tony Prestedge	47	Chief Relationships and Distribution Officer	Dunfermline BS Nominees Limited Monument (Sutton) Limited Nationwide Anglia Property Services Limited The Derbyshire (Premises) Limited The Nationwide Foundation
Rita Clifton	59	Non-Executive Director	Ascential plc ASOS Plc BrandCap Ltd Populus Group Limited Populus Limited Rita Clifton Limited
Mitchel Lenson	62	Non-Executive Director	Eclipse Film Partners No.39 LLP (Designated Member) The Invicta Film Partnership No.37, LLP (Designated Member) The Currency Cloud Group Limited
Lynne Peacock	62	Non-Executive Director	Elevate Portfolio Services Limited Hawkins Residents Limited Scottish Water Business Stream Holdings Limited Scottish Water Horizon Holdings Limited Serco Group plc Standard Life Aberdeen plc Standard Life Assurance Limited Standard Life Savings Limited The Westminster Society for People with Learning Disabilities
Mai Fyfield	48	Non-Executive Director	Jupiter Entertainment
Tim Tookey	55	Non-Executive Director	Old Mutual Wealth Management Limited Westmoreland Court Management (Beckenham) Limited
Kevin Parry	55	Company Director	Daily Mail and General Trust plc Intermediate Capital Group plc KAH Parry Limited

Name	Age	Position	Other Directorships
Baroness Usha Prashar	69	Member of House of Lords Non-Executive Director	Royal National Children's Foundation Standard Life Aberdeen plc British Council (Trustee) Philharmonia Trust Limited UK Community Foundations (Honorary President)
Gunn Waersted	62	Non-Executive Director	Petoro AS Telenor ASA Lukrist Invest AS

TAXATION

UNITED KINGDOM TAXATION

The comments below, which are of a general nature, are a summary of the Issuer's understanding of current United Kingdom tax law as applied in England and Wales and published HM Revenue and Customs practice relating to certain aspects of the United Kingdom withholding tax treatment at the date hereof in relation to payments of interest (as that term is understood for United Kingdom tax purposes) in respect of the Notes. They do not deal with any other United Kingdom taxation aspects of acquiring, holding or disposing of Notes. The comments relate only to the position of persons who are the absolute beneficial owners of their Notes and Coupons and do not apply to certain classes of person (such as dealers and persons connected with the Issuer).

Prospective holders of Notes should be aware that the particular terms of issue of any series of Notes as specified in the relevant Final Terms may affect the tax treatment of that and other series of Notes. The United Kingdom tax treatment of prospective Noteholders depends on their individual circumstances and may be subject to change in the future. Prospective holders of Notes who may be liable to tax in a jurisdiction other than the United Kingdom are strongly advised to consult their own professional advisers as to whether they are so liable (and if so under the laws of which jurisdictions). The comments assume that no security will be created for the benefit of the Notes, that there will be no substitution of the Issuer and do not address the consequences of such substitution (notwithstanding that such substitution is permitted by the terms and conditions of the Notes), that the Issuer will not issue any Notes from or through any branch situated outside the United Kingdom and that the Issuer will remain a Building Society within the meaning of the Income Tax Act 2007. Noteholders who are in any doubt as to their tax position should consult their professional advisers.

1. United Kingdom Withholding Tax on Payments of Interest on the Notes

- (a) Ordinary Notes and Subordinated Notes which carry a right to interest will constitute “quoted Eurobonds” provided that they 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) and admitted to trading on the London Stock Exchange. Securities which are to be listed on a stock exchange other than the London Stock Exchange will satisfy this requirement if they are officially listed in the relevant country in accordance with provisions corresponding to those generally applicable in EEA states and are admitted to trading on a recognised stock exchange in that country. Provided the Ordinary Notes and Subordinated Notes are and continue to be quoted Eurobonds, payments of interest on such Notes may be made without withholding or deduction for or on account of United Kingdom tax.
- (b) Payments of interest on Subordinated Notes that are not so listed on a “recognised stock exchange” may nevertheless be made without deduction of or withholding on account of United Kingdom income tax provided that such Notes are capable of being so listed and pursuant to the Taxation of Regulatory Capital Securities Regulations 2013 (the **RCS Regulations**) such Subordinated Notes constitute “regulatory capital securities”. The Subordinated Notes will be “regulatory capital securities” if they qualify, or have qualified, as Tier 2 instruments under Article 63 of Commission Regulation (EU) No 575/2013 and such Subordinated Notes form, or have formed, a component of Tier 2 capital for those purposes. This is subject to there being no arrangements the main purpose, or one of the main purposes, of which is to obtain a tax advantage (as defined in section 1139 of Corporation Tax Act

2010) for any person as a result of the application of the RCS Regulations in respect of such Subordinated Notes.

- (c) In the case of Deposit Notes, interest may be paid without withholding or deduction on account of United Kingdom income tax if such Notes constitute “qualifying certificates of deposit” or “qualifying uncertificated eligible debt security units” within the meaning of sections 985 and 986 ITA 2007 respectively.
- (d) Deposit Notes will be “qualifying certificates of deposit” within the meaning of section 985 ITA 2007 provided they relate to a deposit of money, they are and continue to be in bearer form and they satisfy the following conditions:
 - (i) they recognise an obligation to pay the holder a stated principal amount;
 - (ii) the amount payable by the Issuer thereunder, exclusive of interest, is not less than £50,000 (or, for a deposit denominated in foreign currency, not less than the equivalent of £50,000 at the time when the deposit was made); and
 - (iii) the obligation of the Issuer to pay that amount arises after a period of not more than five years beginning with the date on which the deposit was made.

Deposit Notes will be “qualifying uncertificated eligible debt security units” if:

- (i) they are “uncertificated” eligible debt security units (within the meaning of regulation 3(1) of the Uncertificated Securities Regulations 2001); and
- (ii) the issue of the units corresponds to the issue of a certificate of deposit in bearer form satisfying the conditions in (i) to (iii) above.

In other cases, if the Notes are capable of being listed on a “recognised stock exchange” at the time the interest on the Notes becomes payable an amount must generally be withheld from such payments on account of United Kingdom income tax at the basic rate (currently 20 per cent.) 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 Noteholder, HMRC can issue a notice to the Issuer to pay interest to the Noteholder without deduction of tax (or interest to be paid with tax deducted at the rate provided for in the relevant double tax treaty).

2. Other Rules Relating to United Kingdom Withholding Tax

Notes may be issued at an issue price of less than 100 per cent. of their principal amount. Under HMRC published practice any discount element on any such Notes will not generally be subject to any United Kingdom withholding tax.

Where Notes are to be, or may fall to be, redeemed at a premium, as opposed to being issued at a discount, then any such element of premium may constitute a payment of interest (notwithstanding Condition 7.4). Payments of interest are subject to United Kingdom withholding tax.

The references to “interest”, “discount” or “premium” in this section headed “*United Kingdom Taxation*” mean respectively **interest**, **discount** or **premium** as understood in United Kingdom tax law. The statements in this section headed “*United Kingdom Taxation*” do not take any account of any different definitions of **interest** or **principal** which may prevail under any other law or which may be created by the terms and conditions of the Notes or any related documentation (e.g. see Condition 7.4 of the Notes).

THE PROPOSED FINANCIAL TRANSACTIONS TAX (FTT)

On 14 February 2013, the European Commission published a proposal (the **Commission's Proposal**) for a Directive for a common financial transactions tax (**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 the Notes (including secondary market transactions) in certain circumstances. Primary market transactions referred to in Article 5(c) of Regulation (EC) No 1287/2006 are expected to be exempt.

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

However, the FTT proposal remains subject to negotiation between 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 Notes are advised to seek their own professional advice in relation to the FTT.

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** (as defined by FATCA) 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 Notes, including whether withholding would ever be required pursuant to FATCA or an IGA with respect to payments on instruments such as Notes, are uncertain and may be subject to change. Even if withholding would be required pursuant to FATCA or an IGA with respect to payments on instruments such as Notes, such withholding would not apply prior to 1 January 2019 and Notes characterised as debt (or which are not otherwise characterised as equity and have a fixed term) for U.S. federal tax purposes that are 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. Holders should consult their own tax advisers regarding how these rules may apply to their investment in Notes.

SUBSCRIPTION AND SALE

The Dealers have in an amended and restated Programme Agreement dated 31 August 2017 (as amended and/or supplemented and/or restated from time to time, the **Programme Agreement**) agreed with the Issuer a basis upon which they or any of them may from time to time agree to purchase Notes. Any such agreement for any particular purchase by a Dealer will extend to those matters stated under “*Terms and Conditions of the Notes*” and “*Form of the Notes*” above. The Issuer may pay the Dealers commissions from time to time in connection with the sale of any Notes. 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 Programme and the issue of the Notes. The Dealers are entitled to be released and discharged from their obligations in relation to any agreement to issue and purchase Notes under the Programme Agreement in certain circumstances prior to payment to the Issuer.

In addition, in the ordinary course of their business activities, the Dealers and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of the Issuer or Issuer's affiliates. Certain of the Dealers or their affiliates that have a lending relationship with the Issuer routinely hedge their credit exposure to the Issuer consistent with their customary risk management policies. Typically, such Dealers and their affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in securities, including potentially the Notes issued under the Programme. Any such short positions could adversely affect future trading prices of Notes issued under the Programme. The Dealers and their affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

United States

The Notes have not been and will not be registered under the Securities Act or the securities laws of any state or other jurisdiction of the United States and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from, or not subject to, the registration requirements of the Securities Act.

Each Dealer has represented and agreed and each further Dealer appointed under the Programme will be required to represent and agree that, except as permitted by the Programme Agreement, it will not offer, sell or deliver Notes (a) as part of their distribution at any time and (b) otherwise until 40 days after the completion of the distribution of all Notes of the Tranche of which such Notes are a part within the United States or to, or for the account or benefit of, U.S. persons and it will have sent to each dealer to which it sells Notes during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons except in accordance with Regulation S of the Securities Act. Terms used in the preceding paragraph and this paragraph have the meanings given to them by Regulation S under the Securities Act.

In addition, until 40 days after the commencement of the offering of all the Notes of the Tranche of which such Notes are a part, an offer or sale of Notes within the United States by any dealer that is not participating in the offering may violate the registration requirements of the Securities Act.

The Notes 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. Treasury regulations. 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 Treasury regulations promulgated thereunder. The applicable Final Terms

will identify whether U.S. Treasury Regulations Section 1.163-5(c)(2)(i)(C) (or any successor rules in substantially the same form that are applicable for purposes of Section 4701 of the Code) (**TEFRA C**) or U.S. Treasury Regulations Section 1.163-5(c)(2)(i)(D) (or any successor rules in substantially the same form that are applicable for purposes of Section 4701 of the Code) (**TEFRA D**) applies or whether the United States Tax Equity and fiscal Responsibility Act of 1982 (**TEFRA**) is not applicable.

Prohibition of sales to EEA Retail Investors

From 1 January 2018, unless the Final Terms in respect of any Notes specifies “Prohibition of Sales to EEA Retail Investors” as “Not Applicable”, each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Notes which are the subject of the offering contemplated by the Base Prospectus as completed by the Final Terms in relation thereto to any retail investor in the European Economic Area. For the purposes of this provision:

- (a) The expression **retail investor** means a person who is one or more of the following:
 - (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, MiFID II); or
 - (ii) a customer within the meaning of Directive 2002/92/EC (as amended, the Insurance Mediation Directive), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; and
- (b) the expression an **offer** includes the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes.

Prior to 1 January 2018, and from that date if the Final Terms in respect of any Notes specifies “Prohibition of Sales to EEA Retail Investors” as “Not Applicable”, 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 Notes which are the subject of the offering contemplated by this Base 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 Notes to the public in that Relevant Member State:

- (a) at any time to any legal entity which is a qualified investor as defined in the Prospectus Directive;
- (b) 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) at any time in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Notes 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 an **offer of Notes to the public** in relation to any Notes 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 Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes, 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.

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) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which Section 21(1) of the FSMA does not or would not, if it was not an authorised person, apply to the Issuer; and
- (b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.

Japan

The Notes have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended, the **FIEA**). Accordingly, each Dealer has represented and agreed and each further Dealer appointed under the Programme will be required to represent and agree that it has not and will not offer or sell any Notes, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan as defined under Item 5, Paragraph 1, Article 6 of the Foreign Exchange and Foreign Trade Act (Act No. 228 of 1949, as amended), or to others for reoffering 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 any other applicable laws, regulations and ministerial guidelines of Japan.

General

Each Dealer has agreed and each further Dealer appointed under the Programme will be required to agree that it will (to the best of its knowledge and belief) comply with all applicable securities laws and regulations in force in any jurisdiction in which it purchases, offers, sells or delivers Notes or possesses or distributes this Base Prospectus and will obtain any consent, approval or permission required by it for the purchase, offer, sale or delivery by it of Notes under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, offers, sales or deliveries and neither the Issuer nor any other Dealer shall have responsibility therefor.

Neither the Issuer nor any of the Dealers represents that Notes 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.

GENERAL INFORMATION

Listing

The listing of Ordinary Notes and Subordinated Notes on the Official List will be expressed as a percentage of their nominal amount (excluding accrued interest). It is expected that each Tranche of Ordinary Notes and Subordinated Notes which is to be admitted to listing on the Official List of the UK Listing Authority and to trading on the London Stock Exchange plc's Regulated Market will be admitted separately as and when issued, subject only to the issue of a global Note initially representing the Notes of such Tranche. Application has been made to the UK Listing Authority for Ordinary Notes and Subordinated Notes issued under the Programme to be admitted to the Official List and to the London Stock Exchange for such Notes to be admitted to trading on the London Stock Exchange's Regulated Market. The admission to listing of the Programme in respect of Ordinary Notes and Subordinated Notes is expected to be granted on or about 6 September 2017.

Clearing

The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg (which are the entities in charge of keeping the records). The appropriate common code and ISIN allocated by Euroclear and Clearstream, Luxembourg in respect of each Tranche of Notes will be contained in the relevant Final Terms. If the Notes are to clear through an additional or alternative clearing system the appropriate information will be specified in the relevant Final Terms.

The address of Euroclear is Euroclear Bank SA/NV, 1 Boulevard du Roi Albert II, B-1210 Brussels and the address of Clearstream, Luxembourg is Clearstream Banking, 42 Avenue JF Kennedy, L-1855 Luxembourg.

Conditions for determining price

The price and amount of Notes 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.

Material Change

There has been no significant change in the financial or trading position of the Issuer or the Group since 4 April 2017 and no material adverse change in the financial or trading position or prospects of the Issuer or the Group since 4 April 2017, being the date to which the latest published accounts were made up.

Auditors

The accounts of the Group for the two years ended 4 April 2017 have been audited by PricewaterhouseCoopers LLP, Chartered Accountants and Registered Auditors, without qualification and in accordance with International Financial Reporting Standards (IFRS) and auditing standards issued by the Auditing Practices Board. The auditors of the Group have no material interest in the Group.

The audit report on the Issuer in respect of the year ended 4 April 2017 states that the “*report, including the opinions, has been prepared for and only for the Society's members as a body in accordance with Section 78 of the Building Societies Act 1986 and for no other purpose*” and that PricewaterhouseCoopers LLP “*do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by*” PricewaterhouseCoopers LLP's “*prior consent in writing*”.

The above was included in line with the guidance issued by the Institute of Chartered Accountants in England and Wales for inclusion in all audit reports produced by audit firms on the financial statements of UK bodies corporate.

Authorisation

Issues of Notes under the Programme have been authorised by a resolution of the Board of Directors of the Issuer passed on 16 March 2005 and a minute of delegation of the Group Finance Director of the Issuer dated 1 December 2016.

Litigation

There are no, and have not been, any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened) of which the Issuer is aware in the 12 months preceding the date of this document which may have or have in such period had a significant effect on the financial position or profitability of the Group.

Post-issuance information

The Issuer does not intend to provide any post-issuance information in relation to any issues of Notes.

Documents available for inspection

For a period of 12 months following the date of this Base Prospectus, copies of the following documents will, when published, be available for inspection at the Principal Office of the Issuer, at the Nationwide House, Pipers Way, Swindon SN38 1NW and from the specified office in London of the Agent:

- (a) the Memorandum and the Rules of the Issuer and the Act;
- (b) the audited consolidated annual accounts of the Issuer and its subsidiaries for each of the years ended 4 April 2016 and 4 April 2017 in each case together with the audit report prepared in connection therewith;
- (c) the most recently published audited consolidated annual accounts of the Issuer and its subsidiaries and, if later, the most recently published interim accounts of the Issuer and its subsidiaries, in each case together with any audit or review reports prepared in connection therewith;
- (d) the Trust Deed (which contains the forms of the temporary and permanent global Notes, the definitive Notes, the Talons and the Coupons) and the Agency Agreement and all amendments thereto and restatements thereof;
- (e) this Base Prospectus; and
- (f) any future offering circulars, prospectuses, information memoranda and supplements including Final Terms to this Base Prospectus and the documents incorporated herein and therein by reference.

Determination of Amounts Outstanding

For the purpose of calculating the U.S. Dollar equivalent of the nominal amount of Notes outstanding under the Programme from time to time, the U.S. Dollar equivalent of Notes denominated in another Specified Currency (as specified in the relevant Final Terms) shall be determined, at the discretion of the Issuer, either as of the date of agreement to issue such Notes (the **Agreement Date**) or on the preceding day on which commercial banks and foreign exchange markets are open for business in London, in each case on the basis of the spot rate for the sale of U.S. Dollars against the purchase of such Specified Currency in the London foreign exchange market quoted by any leading bank selected by the Issuer on the relevant date of calculation.

The U.S. Dollar equivalent of any Zero Coupon Note and any other Note issued at a discount shall be calculated in the manner specified above by reference to the net proceeds received by the Issuer for the relevant issue.

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