OFFERING CIRCULAR dated 20 September 2019

Nationwide Building Society

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

£600,000,000 Reset Perpetual Contingent Convertible Additional Tier 1 Capital Securities

Issue price: 100.00 per cent.

Nationwide Building Society (the "**Society**") expects to issue £600,000,000 Reset Perpetual Contingent Convertible Additional Tier 1 Capital Securities (the "**Securities**") on or about 24 September 2019 (the "**Issue Date**").

The Securities will bear interest, in accordance with the conditions of issue of the Securities (the "**Conditions**"), on their nominal amount from (and including) the Issue Date at the applicable Interest Rate described below. Subject to cancellation as set out in the Conditions, interest shall be payable on the Securities semi-annually in arrear in equal instalments on 20 June and 20 December in each year (each, an "**Interest Payment Date**"), with a short first interest period to 20 December 2019. For each Interest Period which commences prior to 20 June 2025 (the "**First Reset Date**"), the Interest Rate shall be 5.875 per cent. per annum. For each Interest Period which commences on or after the First Reset Date, the Interest Rate shall be the sum of the Benchmark Gilt Reset Reference Rate (as defined in the Conditions) in relation to that period and the initial credit spread of 5.390 per cent. per annum. Any payment of interest may be cancelled (in whole or in part) in the sole discretion of the Society, and shall be cancelled (in whole or in part) in certain circumstances described herein, including (without limitation) if the Society has insufficient distributable items available for paying interest or for regulatory or solvency reasons.

If at any time the CET1 Ratio (calculated on either an individual consolidated basis or a consolidated basis, and as further defined in the Conditions) of the Society falls below 7.00 per cent. (the "**Conversion Trigger**"), the Society will irrevocably cancel all accrued and unpaid interest, write down the Securities to zero and issue to each holder of Securities (each a "**Securityholder**") such number of Core Capital Deferred Shares ("**CCDS**") as is equal to the aggregate nominal amount of that holder's Securities divided by the prevailing Conversion Price, all as more fully described in the Conditions. Such write-down and issue of CCDS is referred to herein as a "**Conversion**", and "**Converted**" should be read accordingly.

The Securities may also be written off or converted to Common Equity Tier 1 capital by the United Kingdom resolution authorities in certain circumstances pursuant to the bank and building society recovery and resolution regime under the Banking Act 2009, as amended.

The Securities have no fixed repayment date. The Society may, subject as provided herein, elect to repay all, but not some only, of the Securities at their nominal amount together with accrued but unpaid interest thereon (excluding interest which has been cancelled in accordance with the Conditions): (i) on any day falling in the period commencing on (and including) 20 December 2024 and ending on (and including) the First Reset Date; (ii) on any date that falls five, or an integral multiple of five, years following the First Reset Date; or (iii) at any time following the occurrence of certain tax events or in the event that the entire nominal amount of the Securities or any part thereof ceases (or would cease) to be part of the Society's Tier 1 Capital (as defined in the Conditions).

The Securities are not intended to be offered, sold or otherwise made available and should not be offered, sold or otherwise made available, to retail clients in the European Economic Area ("EEA"), as defined in the rules set out in the Markets in Financial Instruments Directive 2014/65/EU, as amended or replaced from time to time ("MiFID II"). Prospective investors are referred to the section headed "*Prohibition on marketing and sales of Securities to retail investors*" commencing on page 3 of this Offering Circular for further information.

The Securities are expected to be admitted to trading on the International Securities Market ("**ISM**") the London Stock Exchange plc (the "**London Stock Exchange**") on or about the Issue Date. The ISM is not a regulated market for the purposes of MiFID II. **The ISM is a market designated for professional investors. Securities admitted to trading on the ISM are not admitted to the Official List of the Financial Conduct Authority (the "FCA"). The London Stock Exchange has not approved or verified the contents of this Offering Circular.** This Offering Circular comprises an admission particulars (the "**Admission Particulars**") for the purposes of the admission to trading of the Securities on the ISM.

Investing in the Securities involves significant risks. Please review carefully the section entitled "*Risk Factors*" in this Offering Circular.

The Securities are expected to be rated BB+ by S&P Global Ratings Europe Limited ("**S&P**"), BB+ by Fitch Ratings Ltd. ("**Fitch**") and Baa3 by Moody's Investors Service Limited ("**Moody's**"). Each of S&P, Fitch and Moody's is established in the European Union ("**EU**") and is registered under the Regulation (EC) No. 1060/2009 (as amended) (the "**CRA Regulation**"). As such, each of S&P, Fitch and Moody's is included in the list of credit rating agencies published by the European Securities and Markets Authority on its website (at *www.esma.europa.eu/page/List-registered-and-certified-CRAs*) in accordance with the CRA Regulation. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation.

The Securities will be issued in registered form in denominations of £200,000 and integral multiples of £1,000 in excess thereof. The Securities will initially be represented by a global certificate (the "**Global Certificate**") registered in the name of a nominee for a common depositary for Euroclear Bank SA/NV ("**Euroclear**") and Clearstream Banking S.A. ("**Clearstream, Luxembourg**") on or about the Issue Date. The Global Certificate will only be exchangeable for definitive Certificates in certain limited circumstances as described under "*Summary of Provisions Relating to the Securities while Represented by the Global Certificate*".

Joint Bookrunners

BofA Merrill Lynch **J.P. Morgan** **UBS Investment Bank**

The Securities will be deferred shares in the Society for the purposes of section 119 of the Building Societies Act 1986, as amended (the "**Act**")**, and will not be protected deposits for the purposes of the Financial Services Compensation Scheme** ("**FSCS**") **established under the Financial Services and Markets Act 2000, as amended** (the "**FSMA**")**.**

This Offering Circular comprises an offering circular for the purposes of giving information with regard to the Society and its subsidiary undertakings (the Society together with its subsidiary undertakings, "**Nationwide**" or the "**Group**") and the Securities. The Society accepts responsibility for the information contained in this Offering Circular. To the best of the knowledge of the Society (having taken all reasonable care to ensure that such is the case) the information contained in this Offering Circular is in accordance with the facts and does not omit anything likely to affect the import of such information.

This Offering Circular is to be read in conjunction with all documents which are deemed to be incorporated herein by reference (see "*Documents Incorporated by Reference*"). This Offering Circular shall be read and construed on the basis that such documents are incorporated in and form part of this Offering Circular and references herein to this Offering Circular shall be construed accordingly.

The admission of the Securities to trading on the ISM is not to be taken as an indication of the merits of an investment in the Society, the Group or the Securities. In making an investment decision, investors must rely on their examination of the Society, the Group and the terms of the Securities, including the merits and risks involved. See "*Risk Factors*" for a discussion of certain factors to be considered in connection with an investment in the Securities.

No person is authorised to give any information or to make any representation not contained in this Offering Circular and any information or representation not contained in this Offering Circular must not be relied upon as having been authorised by the Society or the Joint Bookrunners (as defined in "*Subscription and Sale*"). Neither the delivery of this Offering Circular nor any subscription, sale or purchase made in connection herewith shall, under any circumstances, constitute a representation or create any implication that there has been no change in the affairs of the Society or the Group since the date of this Offering Circular.

The Securities have not been and will not be registered under the United States Securities Act of 1933, as amended (the "**Securities Act**") or any other U.S. State securities laws and may not be offered or sold in the United States of America (the "**United States**" or "**U.S.**") or to, or for the account or benefit of, U.S. persons as defined in Regulation S under the Securities Act otherwise than in accordance with all applicable securities laws of any state of the United States and any other jurisdiction.

This Offering Circular does not constitute an offer of, or an invitation by or on behalf of the Society or the Joint Bookrunners to subscribe for or purchase, any Securities. The distribution of this Offering Circular and the offering of the Securities in certain jurisdictions may be restricted by law. Persons into whose possession this Offering Circular comes are required by the Society and the Joint Bookrunners to inform themselves about and to observe any such restrictions. For a further description of certain restrictions on offering and sales of the Securities and on distribution of this Offering Circular, see "*Subscription and Sale*".

Neither this Offering Circular nor any other information supplied in connection with any Securities (a) is intended to provide the basis of any credit or other evaluation or (b) should be considered as a recommendation by the Society or any of the Joint Bookrunners that any recipient of this Offering Circular or any other information supplied in connection with any Securities should purchase any Securities. Each investor contemplating purchasing any Securities should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Society. Neither this Offering Circular nor any other information supplied in connection with the issue of any Securities constitutes an offer or invitation by or on behalf of the Society or any of the Joint Bookrunners to any person to subscribe for or to purchase any Securities.

PROHIBITION ON MARKETING AND SALES OF SECURITIES TO RETAIL INVESTORS

The Securities are complex and high-risk financial instruments and are not a suitable or appropriate investment for all investors. In some jurisdictions, regulatory authorities have adopted or published laws, regulations or guidance with respect to the offer or sale of securities such as the Securities to retail investors. In particular, in June 2015, the FCA published the Product Intervention (Contingent Convertible Instruments and Mutual Society Shares) Instrument 2015 (the "**PI Instrument**"). In addition, (i) on 1 January 2018, the provisions of Regulation (EU) No. 1286/2014 on key information documents for packaged and retail and insurance-based investment products ("**PRIIPs**") became directly applicable in all EEA member states and (ii) MiFID II was required to be implemented in EEA member states by 3 January 2018. Together the PI Instrument, PRIIPs and MiFID II are referred to as the "**Regulations**".

The Regulations set out various obligations in relation to (i) the manufacture and distribution of financial instruments and (ii) the offering, sale and distribution of packaged retail and insurance-based investment products and certain contingent write down or convertible securities, such as the Securities.

Potential investors in the Securities should inform themselves of, and comply with, any applicable laws, regulations or regulatory guidance with respect to any resale of the Securities (or any beneficial interests therein) including the Regulations.

Each of the Joint Bookrunners is required to comply with some or all of the Regulations.

By purchasing, or making or accepting an offer to purchase, any Securities (or a beneficial interest therein) from the Society and/or any Joint Bookrunner, each prospective investor represents, warrants, agrees with, and undertakes to, the Society and to each of the Joint Bookrunners that:

1. it is not a retail client (as defined in MiFID II);

2. whether or not it is subject to the Regulations, it will not:

   i. sell or offer the Securities (or any beneficial interest therein) to retail clients (as defined in MiFID II); or

   ii. communicate (including the distribution of this Offering Circular, in preliminary or final form) or approve an invitation or inducement to participate in, acquire or underwrite the Securities (or any beneficial interests therein) where that invitation or inducement is addressed to or disseminated in such a way that it is likely to be received by a retail client (in each case within the meaning of MiFID II),

   and in selling or offering the Securities or making or approving communications relating to the Securities, each prospective investor may not rely on the limited exemptions set out in the PI Instrument;

3. it will act as principal in purchasing, making or accepting any offer to purchase any Securities (or any beneficial interest therein) and not as an agent, employee or representative of any of the Joint Bookrunners;

4. it will act as principal in purchasing, making or accepting any offer to purchase any Securities (or any beneficial interest therein) and not as an agent, employee or representative of any of the Joint Bookrunners; and

5. it will at all times comply with all applicable laws, regulations and regulatory guidance (whether inside or outside the EEA) relating to the promotion, offering, distribution and/or sale of the Securities (and any beneficial interest therein), including (without limitation) the Regulations (as applicable) and any such laws, regulations and regulatory guidance relating to determining the

appropriateness and/or suitability of an investment in the Securities (or any beneficial interest therein) by investors in any relevant jurisdiction.

Each prospective investor further acknowledges that:

(i) the identified target market for the Securities (for the purpose of the product governance obligations in MiFID II) is eligible counterparties and professional clients only;

(ii) all channels for distribution to eligible counterparties and professional clients are appropriate; and

(iii) no key information document under PRIIPs has been prepared and therefore offering or selling the Securities or otherwise making them available to any retail investor in the EEA may be unlawful under PRIIPs.

Where acting as agent on behalf of a disclosed or undisclosed client when purchasing, or making or accepting an offer to purchase, any Securities (or any beneficial interest therein) from the Society and/or any of the Joint Bookrunners, the foregoing representations, warranties, agreements and undertakings will be given by and be binding on both the agent and its underlying client(s).

PRIIPs Regulation/Prohibition of Sales to EEA Retail Investors: The Securities are not intended to be offered, sold or otherwise made available, and should not be offered, sold or otherwise made available, to any retail investor in the EEA. For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of MiFID II; or (ii) a customer within the meaning of the Directive (EU) 2016/97 (the "**Insurance Distribution Directive**"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II. Consequently, no key information document required by PRIIPs for offering or selling the Securities or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Securities or otherwise making them available to any retail investor in the EEA may be unlawful under PRIIPs.

MiFID II Product Governance/Professional Investors and ECPs only target market: Solely for the purposes of each manufacturer's product approval process, the target market assessment in respect of the Securities has led to the conclusion that: (i) the target market for the Securities is eligible counterparties and professional clients only, each as defined in MiFID II; and (ii) all channels for distribution of the Securities to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Securities (a "**distributor**") should take into consideration the manufacturers' target market assessment. However, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Securities (by either adopting or refining the manufacturers' target market assessment) and determining appropriate distribution channels.

SINGAPORE SFA PRODUCT CLASSIFICATION

In connection with Section 309B of the Securities and Futures Act (Chapter 289) of Singapore (the "**SFA**") and the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore (the "**CMP Regulations 2018**"), the Society has determined, and hereby notifies all relevant persons (as defined in Section 309A(1) of the SFA), that the Securities are 'prescribed capital markets products' (as defined in the CMP Regulations 2018) and Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).

SUITABILITY OF INVESTMENT

The Securities are complex and high-risk financial instruments and may not be a suitable investment for all investors. Each potential investor in the Securities 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 Securities, the merits and risks of investing in the Securities and the information contained or incorporated by reference in this Offering Circular 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 Securities and the impact the Securities 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 Securities, including where sterling (the currency for principal and interest payments) is different from the potential investor's currency, and the possibility that the entire investment in the Securities could be lost, including following the exercise of any bail-in power by the resolution authorities under the Banking Act 2009, as amended (the "**Banking Act**");

(iv) understands thoroughly the terms of the Securities, including without limitation the terms relating to the Conversion, the CET1 Ratio and the determination of the Solvency Test 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 (1) Securities are legal investments for it, (2) Securities can be used as collateral for various types of borrowing and (3) other restrictions apply to its purchase or pledge of any Securities. Financial institutions should consult their legal advisors or the appropriate regulators to determine the appropriate treatment of Securities under any applicable risk-based capital or similar rules.

Securities must be held through an account (or through an institution which has an account) with Euroclear and/or Clearstream, Luxembourg or any replacement or successor clearing system (together, the "**Clearing Systems**"). This requirement applies for so long as Euroclear or Clearstream, Luxembourg remain in business and even if Euroclear and Clearstream, Luxembourg both cease to carry on business, will apply so long as there is a successor or alternative clearing system available. There are certain consequences for holders of this requirement which are discussed in the section headed "*Risk Factors*".

The Society considers that it is unlikely that there will not be a Clearing System through which the Securities can be held. However, should this be the case, each investor would at the appropriate time receive a Certificate evidencing the Securities registered in its name.

Any investor who is in any doubt as to the suitability of the Securities as an investment should take professional advice.

STABILISATION

In connection with the issue of the Securities, UBS AG London Branch (the "Stabilising Manager") (or any person acting on behalf of the Stabilising Manager), may over-allot Securities or effect transactions with a view to supporting the market price of the Securities at a level higher than that which might otherwise prevail. However, stabilisation may not necessarily occur. Any stabilisation action may begin on or after the date on which adequate public disclosure of the final terms of the offer of the Securities 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 Securities and 60 days after the date of the allotment of the Securities. Any stabilisation action or over-allotment must be conducted by the Stabilising Manager (or person(s) acting on behalf of the Stabilising Manager) in accordance with all applicable laws and rules.

In this Offering Circular, unless otherwise specified or the context otherwise requires, references to "**pounds**", "**pence**", "**sterling**", "**£**" and "**p**" are to the lawful currency of the United Kingdom of Great Britain and Northern Ireland (the "**United Kingdom**" or "**UK**") and references to "**euro**" or "**€**" 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.

Terms used in this Offering Circular shall, unless otherwise defined, or as 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**").

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OVERVIEW OF THE SECURITIES

This overview must be read as an introduction to this Offering Circular and any decision to invest in the Securities should be based on a consideration of this Offering Circular as a whole, including the documents incorporated by reference. Words and expressions defined in "Conditions of Issue of the Securities" shall have the same meanings in this section.

Issuer of the Securities:	Nationwide Building Society Legal Entity Identifier ("**LEI**"): 549300XFX12G42QIKN82
Description of the Securities:	£600,000,000 Reset Perpetual Contingent Convertible Additional Tier 1 Capital Securities (the "**Securities**")
Joint Bookrunners:	J.P. Morgan Securities plc Merrill Lynch International UBS AG London Branch
Registrar, Principal Paying Agent:	Citibank, N.A., London Branch
Issue Date:	24 September 2019 (the "**Issue Date**")
Status of the Securities:	The Securities will constitute direct, unsecured and subordinated investments in the Society (subordinated in the manner summarised below and outlined in the Conditions) which will at all times rank *pari passu* without any preference among themselves.
Subordination of the Securities:	On a winding-up or dissolution of the Society which commences prior to the Conversion Date (save as otherwise provided in an Excluded Dissolution), the rights and claims of Securityholders in respect of their Securities (including claims for any damages awarded in respect thereof) shall, subject to applicable insolvency law, rank: • junior to: (a) the claims of all creditors (including all subordinated creditors) and investing members (as regards the principal and interest due on such investing members' share investments) of the Society including, without limitation (but subject as follows), claims in respect of obligations of the Society which constitute Tier 2 Capital, but in each case excluding claims in respect of deferred share investments which are Parity Obligations or Junior Obligations; and (b) the claims of all investing members (as regards the principal and interest due on such investing members' share investments) of the Society in respect of:

(i) (for so long as any of the same remain outstanding) the Existing PIBS; and

(ii) any other deferred share investments in the Society except for deferred share investments which are (or the claims in respect of which are) Parity Obligations or Junior Obligations,

(claims preferred under this subparagraph being, collectively, "**Senior Obligations**");

- *pari passu* among themselves and with any other claims ranking, or expressed to rank, *pari passu* with claims in respect of the Securities ("**Parity Obligations**"); and

- senior to all claims under any deferred share (core capital) investment in the Society (including the CCDS) and any other claims ranking, or expressed to rank, junior to either the Securities or any Parity Obligations ("**Junior Obligations**").

The terms "**investing members**", "**deferred share investment**" and "**deferred share (core capital) investment**" have the meanings ascribed to them in the Rules.

"**Excluded Dissolution**" means each of (i) a winding up or dissolution of the Society for the purpose of a reconstruction, union, transfer, merger or amalgamation or the substitution in place of the Society of a successor in business the terms of which have previously been approved by the Securityholders in accordance with Condition 15, and (ii) a dissolution of the Society by virtue of the amalgamation and transfer provisions set out in sections 93, 94 and 97 of 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.

Rights on a winding-up or dissolution:

Subject to the above, holders of the Securities shall, in a winding-up or dissolution of the Society (save as otherwise provided in an Excluded Dissolution) which commences prior to the Conversion Date determined in accordance with Condition 8, be entitled to claim for the nominal amount of their Securities together with accrued but unpaid interest thereon (excluding interest which has been cancelled in accordance with the Conditions) and any damages awarded in respect thereof. Such claim shall be conditional upon all sums due in respect of claims in such winding-up or dissolution in relation to Senior Obligations having been paid in full.

Solvency Test:

No payment of principal, interest, or any other amount in respect of the Securities shall become due and payable unless, and to the extent that, the Society is able to make such payment and still be solvent (within the meaning given in Condition 4.4) immediately

	thereafter, in each case except in the winding-up or administration of the Society (the "**Solvency Test**"). See also Condition 4 of "*Conditions of Issue of the Securities*".
No set-off:	Subject to applicable law, no Securityholder may exercise, claim or plead any right of set-off, compensation or retention in respect of any amount owed to it by the Society in respect of, or arising under or in connection with, the Securities and each holder shall, by virtue of his holding of any Security, be deemed to have waived all such rights of set-off, compensation or retention.
Conversion:	If, at any time, either CET1 Ratio (calculated on either an individual consolidated basis or a consolidated basis, and as further described in the Conditions) of the Society falls below 7.00 per cent. (the "**Conversion Trigger**"), as determined by the Society or the Regulator (or its agent), the Society will: (a) cancel any interest which has accrued and remains unpaid up to (and including) the relevant Conversion Date (whether or not such interest has become due for payment); (b) irrevocably (without the need for the consent of Securityholders) write down the Securities by reducing the nominal amount of each Security to zero; and (c) issue to each Securityholder such number of CCDS as is equal to the aggregate nominal amount of that Securityholder's Securities divided by the Conversion Price (such write-down and issue of CCDS being referred to as a "**Conversion**", and "**Converted**" being construed accordingly). Once the nominal amount of a Security has been written down, the nominal amount will not be restored in any circumstances, including where the relevant Conversion Trigger ceases to continue. The "**Conversion Price**" shall be £100.00, subject to adjustment in certain circumstances provided in Condition 8.5. See also Condition 8 of "*Conditions of Issue of the Securities*".
Core Capital Deferred Shares ("CCDS"):	If a Conversion Trigger were to occur, the CCDS to be issued to Securityholders are expected to have the same terms as, and to be consolidated and form a single series with, any outstanding CCDS of the Society. As at the date of this Offering Circular there are 10,500,000 CCDS outstanding. The outstanding CCDS are registered securities comprising deferred share (core capital) investments of the Society within the meaning of the Rules. The CCDS are cleared in Euroclear and Clearstream, Luxembourg and traded in minimum transfer amounts of 250 CCDS (which minimum transfer amount may, with regulatory consent, be reduced by the Society in its discretion in the future). The existing CCDS are admitted to trading on the London Stock Exchange plc's main market for listed securities and have ISIN GB00BBQ33664. Information regarding the past performance of the existing CCDS can be obtained from the London Stock Exchange plc. Past

performance is not an indication of future performance.

The Conditions of Issue of the CCDS which are currently outstanding are incorporated by reference in this Offering Circular.

Repayment and Purchase:

The Securities will constitute permanent non-withdrawable deferred shares (as defined in the Act) in the Society and have no fixed repayment date.

Society's Option to Repay

The Society may elect to repay all, but not some only, of the Securities then outstanding:

(i) on any day falling in the period commencing on (and including) 20 December 2024 and ending on (and including) 20 June 2025 (the "**First Reset Date**"); or

(ii) on any Reset Date,

in each case at their nominal amount together with accrued but unpaid interest thereon (excluding interest which has been cancelled in accordance with the Conditions).

Any such repayment is subject to the applicable conditions set out below under "*Conditions to Repayment and Purchase*".

Optional Repayment for Tax Reasons or Regulatory Reasons

In addition, the Society may elect to repay, in whole but not in part, the Securities upon the occurrence of a Tax Event or a Regulatory Event (each as defined in Condition 7) at their nominal amount, in each case together with accrued but unpaid interest thereon (excluding interest which has been cancelled in accordance with the Conditions).

Any such repayment is subject to the applicable conditions set out below under "*Conditions to Repayment and Purchase*".

Purchases

The Society or any other member of the Group may at any time purchase or otherwise acquire Securities in any manner and at any price. Any such purchase is subject to compliance with the Capital Regulations and to the applicable conditions set out below under "*Conditions to Repayment and Purchase*".

Conditions to Repayment and Purchase

Any repayment or purchase of the Securities by the Society or any member of the Group is subject to:

(i) the Society providing such notice to the Regulator and obtaining such approval, permission or consent from the

Regulator as is required under the then prevailing Capital Regulations; and

(ii) the Society having demonstrated to the satisfaction of the Regulator that either: (A) the Society has (or will have) replaced the Securities with own funds instruments of equal or higher quality at terms that are sustainable for the income capacity of the Society; or (B) the own funds and eligible liabilities of the Society would, following such repayment or purchase, exceed its minimum requirements (including any applicable buffer requirements) by a margin that the Regulator considers necessary at such time; and

(iii) in respect of a repayment or purchase prior to the fifth anniversary of the Reference Date:

(A) in the case of repayment upon the occurrence of a Tax Event, the Society has demonstrated to the satisfaction of the Regulator that (1) the change in tax treatment is material and (2) the relevant Tax Law Change was not reasonably foreseeable as at the Reference Date; or

(B) in the case of repayment upon the occurrence of a Regulatory Event, the Society has demonstrated to the satisfaction of the Regulator that the change (or pending change) in the regulatory classification of the Securities was not reasonably foreseeable as at the Reference Date; or

(C) in the case of a purchase, the Society having demonstrated to the satisfaction of the Regulator that the Society has (or will have), before or at the same time as such purchase, replaced the Securities with own funds instruments of equal or higher quality at terms that are sustainable for the income capacity of the Society, and the Regulator having permitted such action on the basis of the determination that it would be beneficial from a prudential point of view and justified by exceptional circumstances; or

(D) the Securities being purchased for market-making purposes in accordance with the Capital Regulations,

provided that if, at the time of such repayment or purchase, the prevailing Capital Regulations permit the repayment or purchase only after compliance with one or more alternative or additional pre-conditions to those set out in paragraphs (i), (ii) and, where applicable, (iii) above, and as outlined in Condition 7.5, the Society shall, in the alternative or in addition to the foregoing (as required by the Capital Regulations), comply with such alternative and/or additional pre-condition(s).

Impact of Solvency Test and Conversion Trigger on Repayment

If the Society has elected to repay the Securities but the Solvency Test is not satisfied in respect of the relevant payment on the date scheduled for repayment, the relevant repayment notice shall be automatically rescinded and shall be of no force and effect and, accordingly, no repayment of the nominal amount of the Securities or any interest thereon will be due and payable on the scheduled repayment date, and the Securities will continue to remain outstanding on the same basis as if no repayment notice had been given.

Further, if the Society has elected to repay the Securities but, prior to the repayment of the nominal amount, a Conversion Trigger occurs, the relevant repayment notice shall be automatically rescinded and shall be of no force and effect, no repayment of the nominal amount of the Securities or any interest thereon will be due and payable on the scheduled repayment date and, instead, a Conversion shall occur in respect of the Securities as described in "*Write-Down and Conversion*" above.

See also Condition 7 of "*Conditions of Issue of the Securities*".

Interest:

The Securities will bear interest from (and including) the Issue Date on their nominal amount, in accordance with the provisions of Condition 5:

(i) for each Interest Period which commences prior to the First Reset Date, at the Initial Interest Rate of 5.875 per cent. per annum; and

(ii) for each Interest Period which commences on or after the First Reset Date, at the applicable Reset Interest Rate, as calculated by the Principal Paying Agent.

"**Reset Interest Rate**" means, in relation to a Reset Period, the sum of: (a) the Benchmark Gilt Reset Reference Rate in relation to that Reset Period; and (b) the Margin of 5.390 per cent. per annum.

Subject to Conditions 4.4, 6 and 8, interest shall be payable on the Securities semi-annually in arrear in equal instalments on each Interest Payment Date as provided in Condition 5, except that the first payment of interest, to be made on 20 December 2019, will be in respect of the period from and including the Issue Date to but excluding 20 December 2019.

Interest Payment Dates:

20 June and 20 December in each year, commencing on (and including) 20 December 2019.

Interest Cancellation:

Optional Cancellation of Interest

The Society may, in its sole discretion but subject at all times to Condition 4.4 and the requirements for mandatory cancellation of

Interest Payments referred to below, elect to cancel any Interest Payment, in whole or in part, which is scheduled to be paid on an Interest Payment Date.

Mandatory Cancellation of Interest

An Interest Payment shall be cancelled mandatorily if and to the extent that the amount of such Interest Payment otherwise due (together with any Additional Amounts payable thereon pursuant to Condition 10, if applicable), together with any interest payments or distributions which have been paid or made or which are required to be paid or made during the then current Financial Year on other own funds items (excluding any such interest payments or distributions which (i) are not required to be made out of Distributable Items or (ii) have already been provided for, by way of deduction, in the calculation of Distributable Items), shall, in aggregate, exceed the amount of Distributable Items of the Society as at such Interest Payment Date.

In addition, the Society shall not pay any Interest Payment otherwise due on an Interest Payment Date if and to the extent that the payment of such Interest Payment (together with any Additional Amounts payable thereon pursuant to Condition 10, if applicable) would cause, when aggregated together with other distributions of the kind referred to in Article 141(2) of the Capital Requirements Directive (or any provision of applicable law transposing or implementing Article 141(2) of the Capital Requirements Directive, as amended or replaced, or any equivalent or similar law, rule or provision of the Capital Regulations, in each case to the extent then applicable to the Society), the Maximum Distributable Amount (if any) then applicable to the Society to be exceeded. "**Maximum Distributable Amount**" means any applicable maximum distributable amount relating to the Society required to be calculated in accordance with Article 141 of the Capital Requirements Directive (or as the case may be, any provision of applicable law transposing or implementing the Capital Requirements Directive, as amended or replaced, or any equivalent or similar law, rule or provision of the Capital Regulations which requires a maximum distributable amount to be calculated or if the Society is failing to meet any capital adequacy requirement, in each case to the extent then applicable to the Society).

The Society will also exercise its discretion to cancel Interest Payments (in whole or in part) on the Securities in any other circumstances in which the Capital Regulations or any other applicable laws or regulations in effect from time to time (or where the Regulator or an applicable resolution authority acting pursuant to such Capital Regulations or other applicable laws or regulations) require Interest Payments on the Securities to be so cancelled (including, but not limited to, if the Society becomes subject to any applicable leverage-based or MREL-based maximum distributable amount restrictions). See further the risk factor entitled "The Capital Regulations provide for capital

	requirements that are in addition to the minimum capital requirement. These additional capital requirements will restrict the Society from making interest payments on the Securities in certain circumstances, in which case the Society will automatically cancel such interest payments" in this Offering Circular. Consequences of Interest Cancellation Any Interest Payment (or part thereof) not paid on any relevant Interest Payment Date by reason of Condition 4.4, 6.1, 6.2 or 8 shall be cancelled and shall not accumulate or be payable at any time thereafter. Non-payment of any Interest Payment (or part thereof) in accordance with any of Condition 4.4, 6.1, 6.2 or 8 will not constitute an event of default by the Society for any purpose, and the Securityholders shall have no right thereto whether in a winding-up or dissolution of the Society or otherwise. See also Condition 6 of "*Conditions of Issue of the Securities*".
Enforcement:	The Conditions will contain no express events of default and as such the ability of a Securityholder to enforce the terms of the Securities will be very limited. See also "*Conversion*", "*Repayment and Purchase*" and "*Interest Cancellation*" above.
Additional Amounts:	All payments in respect of the Securities shall be made free and clear of, and without withholding or deduction for, or on account of, any Taxes of the United Kingdom, unless such withholding or deduction is required by law. If any such withholding or deduction for or on account of any Taxes is required by law, the Society will, in respect of payments of interest (but not of principal or any other amount), pay Additional Amounts as provided in Condition 10 of "*Conditions of Issue of the Securities*", subject to certain exceptions set out in that Condition.
Form:	The Securities will be issued in global registered form. The Securities (a) will be deferred shares for the purposes of section 119 of the Act, (b) will not be protected deposits for the purpose of the FSCS established under the FSMA, (c) will not be withdrawable and (d) will be 'deferred share investments' (but not 'deferred share (core capital) investments') for the purposes of the Rules.
Denomination:	The Securities will be issued in denominations of £200,000 and higher integral multiples of £1,000 in excess thereof.
Governing Law:	The Securities and any non-contractual obligations arising out of or in connection with them will be governed by, and shall be construed in accordance with, English law.
Ratings:	The Securities are expected to be rated BB+ by S&P, BB+ by Fitch and Baa3 by Moody's. A security rating is not a

	recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation.
Admission to Trading:	The Securities are expected to be admitted to trading on the ISM on or around the Issue Date.
Successions and Transfer:	Condition 13 contains provisions applicable to the Securities upon an amalgamation by the Society with another building society under section 93 of the Act, a transfer of all or substantially all of its engagements to another building society under section 94 of the Act or a transfer by the Society of the whole of its business in accordance with section 97 of the Act to a company. Those provisions enable (in the context of such amalgamation or transfer only, and subject to certain conditions and restrictions) certain amendments to be made to the terms of the Securities without the consent of the Securityholders, or for the Securityholders to receive, in place of their Securities, new securities issued by the Successor Entity or, where applicable, its Qualifying Parent (each as defined in Condition 13). Such provisions could potentially result in amendments to the Conversion provisions of the Securities, including the nature of the instrument into which the Securities would convert upon the occurrence of a Conversion Trigger and, in circumstances where the relevant entity resulting from such amalgamation or transfer (or its parent) does not have a viable instrument which could be delivered upon Conversion, the Conversion feature of the Securities may be replaced with a permanent write-down feature.
Selling and Transfer Restrictions:	The United States, the United Kingdom, Italy, the EEA, Canada and Singapore. The Securities 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, subject to certain exceptions, may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S under the Securities Act). The Securities are being offered and sold outside the United States to non-U.S. persons in reliance on Regulation S under the Securities Act. For a description of these and certain further restrictions on offers, sales and transfers of the Securities and distribution of this Offering Circular, see "*Subscription and Sale*".
MiFID II Product Governance/ PRIIPs Regulation/FCA CoCo restriction:	Solely for the purposes of each manufacturer's product approval processes, the manufacturers have concluded that: (i) the target market for the Securities is eligible counterparties and professional clients only; and (ii) all channels for distribution of the Securities to eligible counterparties and professional clients are appropriate. No PRIIPs Regulation key information document has been prepared as the Securities are not available to retail investors in the EEA. No sales to retail investors.
Use of Proceeds:	The net proceeds of the issue of the Securities (estimated to be

	approximately £594,000,000) will be used by the Society to strengthen its regulatory capital base and for general business purposes consistent with the Society's principal purpose as a UK building society.
Risk Factors:	There are certain factors that may affect the Society's ability to fulfil its obligations under the Securities. In addition, there are certain factors which are material for the purpose of assessing the market risks associated with the Securities and certain factors which are material for the purpose of assessing the market risks associated with CCDS (which holders would, subject to Condition 13, receive upon Conversion of the Securities following a Conversion Trigger). Prospective investors should carefully consider the information set out in "*Risk Factors*" in conjunction with the other information contained in or incorporated by reference in this Offering Circular.
Clearing Systems:	The Securities have been accepted for clearing through the facilities of Euroclear and Clearstream, Luxembourg. *Securities held through an account with Euroclear and/or Clearstream, Luxembourg will be registered in the name of a nominee for the common depositary for the Clearing Systems (the "**Nominee**") who shall be the Securityholder for those Securities for the purposes of the Conditions, and not the investors holding the beneficial interests in the Securities through Euroclear and/or Clearstream, Luxembourg. An investor holding beneficial interests in the Securities through Euroclear and/or Clearstream, Luxembourg will not be a member of the Society by virtue of its investment in the Securities and (without prejudice to any rights or obligations that such person may have as a member of the Society in some other capacity) will be only indirectly subject to the Rules, the Memorandum and the Act with respect to its holding of Securities in the manner provided above. Investors holding beneficial interests in the Securities through Euroclear and/or Clearstream, Luxembourg accounts shall be entitled to the rights in respect of their beneficial interests as prescribed by the rules of Euroclear and/or Clearstream, Luxembourg, as the case may be.*
ISIN:	XS2048709427.
Common Code:	204870942.
CFI/FISN:	See the website of the Association of National Numbering Agencies ("**ANNA**") or alternatively sourced from the responsible National Numbering Agency that assigned the ISIN.

RISK FACTORS

The Securities are complex and high-risk financial instruments and may not be a suitable investment for all investors. Investors should ensure that they understand the risks of investing in the Securities before they make their investment decision. They should make their own independent decision whether to invest in the Securities and decide whether an investment in such Securities is appropriate or proper based upon their own judgement and upon advice from such advisers as they consider necessary.

*Securities held through an account with Euroclear and/or Clearstream, Luxembourg will be registered in the name of a nominee for the common depositary for the Clearing Systems (the "**Nominee**"). For so long as the Securities are so held, the Nominee shall be the sole legal holder of those Securities for the purposes of the Conditions of Issue of the Securities (the "**Conditions**"), rather than the investors holding the beneficial interests in the Securities through Euroclear and/or Clearstream, Luxembourg, as the case may be (see "Summary of Provisions Relating to the Securities while Represented by the Global Certificate").*

Such investors will be subject to the same risks set out below as the Securityholder (as defined in the Conditions) save where their rights are more restricted as a result of their holding Securities through Euroclear and/or Clearstream, Luxembourg (see paragraph "Summary of Provisions Relating to the Securities while Represented by the Global Certificate – Meetings; Membership rights whilst the Securities are held through Euroclear and/or Clearstream, Luxembourg", below). Other than where defined in the Conditions, references in this Offering Circular to Securityholders shall include references to such investors holding beneficial interests in the Securities through Euroclear and/or Clearstream, Luxembourg, as well as holders of Securities in definitive form.

FACTORS THAT MAY AFFECT THE SOCIETY'S ABILITY TO FULFIL ITS OBLIGATIONS UNDER THE SECURITIES

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

The Society's business activities are concentrated in the UK and the Society offers a range of banking and financial products and services to UK retail customers. As a consequence, the Society'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 Society has benefitted from generally positive economic conditions in each of the three years ended 4 April 2019, 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 and uncertainty in UK economic conditions could lead to a decline in the credit quality of the Society's borrowers and counterparties and have an adverse effect on the quality of its loan portfolio, which could result in a rise in delinquency and default rates, reduce the recoverability and value of the Society's assets and require an increase in the Society's level of provisions for bad and doubtful debts. Likewise, a significant reduction in the demand for the Society's products and services could negatively impact the Society'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 Society's residential mortgage and unsecured lending portfolio, and an associated increase in retail impairment. There can be no assurance that the Society 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 Society's provisions for loan losses and write-offs/charge-offs could have an adverse effect on the Society's operating results, financial condition and prospects.

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

Worsening economic conditions in the UK could also create uncertainty in relation to the cash flows of the Society'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 Society's CRE lending. Any weakening in tenant performance and investor appetite could result in increased commercial loan losses which would adversely impact the Society's financial and operational performance. Any further loan loss provisions recorded against the Society's CRE lending could adversely affect the Society's profitability in the future.

Downward pressure on profitability and growth could occur as a result of a number of external influences, such as the consequences of a more austere economic environment and the impact of global economic forces on the UK economy. Adverse changes in global growth may pose the risk of a further slowdown in the UK's principal export markets, which would have an adverse effect on the broader UK economy. For further information on the risks arising from general economic conditions abroad, see "*—The Society 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*" below.

Conversely, a strengthened UK economic performance, or a rise in inflation pressures, may increase the possibility of a higher interest rate environment. In such a scenario, other market participants might offer more competitive product pricing resulting in increased customer attrition. Under such conditions, the Society 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 Society's customers, clients and counterparties, which could in turn adversely affect the Society*" below.

Additionally, housing affordability has become more stretched in recent years in some parts of the country. There is a risk that a decline in house sales, including due to house price growth outstripping earnings, could reduce demand for new mortgages in the future. In addition, the recent increase in interest rates will increase mortgage payments, which could lead to higher retail loan losses. See further "*—The Society is exposed to future changes in UK house prices*" below.

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

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

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

Although, globally and in the UK, economic and financial 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 Society, including its ability to access capital and liquidity on financial terms acceptable to it, if at all. If capital markets financing ceases to become available, or becomes significantly more expensive, the Society 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 Society's interest margins, liquidity and profitability.

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

Retail depositors are a significant source of funding for the Society and, under current legislation, a minimum of 50 per cent. of its aggregate shares and borrowings (calculated in accordance with the Act) is required to be in the form of deposits accepted from members of the public and which are classified as "shares" on the balance sheet as they confer member status on the depositors. The Society's retail deposits classified as shares totalled £154 billion as at 4 April 2019, £148 billion as at 4 April 2018 and £145 billion as at 4 April 2017, equal to 70.8 per cent. 71.0 per cent. and 71.7 per cent., respectively, of its total shares and borrowings (for the purposes of the Act) as at each such date.

The ongoing availability of retail deposit funding is dependent on a variety of factors outside of the Society's control, such as:

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

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

The maintenance and growth of the Society'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 Society'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 Society's retail deposit base, upon which it relies for lending and which could have a material adverse effect on its business, financial position and results of operations.

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

Under exceptional circumstances, the Society'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 Society 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 as a result of the withdrawal of government and central bank funding and liquidity support, or a change in the structure, term, cost, availability or accessibility of any such funding or liquidity support) could increase the Society's cost of funding, resulting in a material adverse effect on its profitability or results of operations, and/or could affect the Society's ability to:

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

In such extreme circumstances the Society 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 Society'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 Society may prove to be inefficient, giving rise to a level of funding cost that is not sustainable in the long-term for the Society to grow its business or even maintain it at current levels. The Society'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 Society's control, such as liquidity constraints, general market conditions, regulatory requirements and loss of confidence in the UK banking system.

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

February 2018. If the TFS were to be reopened or replaced with other Government schemes designed to support lending, this may increase or perpetuate competition in the retail lending market, resulting in sustained or intensifying downward pricing pressures and consequent reductions in net interest margins.

The Society expects to face continuing significant competition (including from National Savings and Investments, the Government-owned funding agency ("**NSI**"), and a range of smaller lenders with largely non-mortgage loan books whose high asset yields enable them to offer attractive deposit rates) for funding, particularly retail funding on which the Society is reliant in the future. These potential pressures could be exacerbated as the sector, as a whole, seeks to replace the funding it obtained from BoE funding schemes. This competition could further increase, impacting the Society's funding costs and so adversely impact the Society'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 Society's customers, clients and counterparties, which could in turn adversely affect the Society

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 Society'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 Society's results of operations, financial condition and return on capital.

Stimulus measures in the UK and elsewhere have been highly accommodative in recent years, including the Funding for Lending Scheme ("**FLS**") (which closed in January 2018), the TFS (which closed in February 2018) and the Help to Buy scheme, a Government scheme introduced in 2013 designed to enable buyers to put down a 5 per cent. deposit on a home with the Government lending up to 20 per cent. of the mortgage (up to 40 per cent. in London) funded by a commercial lender (which is expected to be closed from 30 November 2019). Although a new Lifetime Individual Savings Account ("**LISA**") programme is being introduced, the impact of this new programme is uncertain. The relatively long period of stimulus in the UK and elsewhere has increased uncertainty over the impact of its reduction, which could lead to generally weaker than expected growth, or even contracting gross domestic product, reduced business confidence, higher levels of unemployment or underemployment, adverse changes to levels of inflation, potentially higher interest rates and falling property prices in the markets in which the Society operates, and consequently to an increase in delinquency rates and default rates among the Society's customers. Moreover, higher prevailing interest rates would affect the Society's cost of funding with depositors and creditors, which could adversely affect the Society's profitability, to the extent the Society's margins decline.

The personal financial services sector in the UK remains heavily indebted and vulnerable to increases in unemployment, rising interest rates and/or falling house prices. As a result of, among other factors, increases and decreases in the BoE base rate, interest rates payable on a significant portion of the Society'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 Society's outstanding mortgage loan products are potentially subject to changes in interest rates, resulting in borrowers with a mortgage loan subject to a variable rate of interest or with a mortgage loan for which the related interest rate adjusts following an initial fixed rate or low introductory rate, as applicable, being exposed to increased monthly payments as and when the related mortgage interest rate adjusts upward (or, in the case of a mortgage loan with an initial fixed rate or low introductory rate, at the end of the relevant fixed or introductory period). Since 2009, both variable and fixed interest rates have been at relatively low levels, which has 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 and when 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 Society's secured residential mortgage loan and unsecured consumer loan portfolios which, in turn, would lead to an increase in the Society'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 BoE were to lower its target rate to a negative rate (as other major central banks, including the European Central Bank and the Bank of Japan, have done). A prolonged period of low interest rates could further reduce incentives for the Society's customers to save, reducing its funding from deposits. Additionally, the low interest rate environment has and may continue to put pressure on net interest income and margins throughout the UK financial industry. The Society's business, financial performance, net interest income and margin may continue to be adversely affected by the low interest rate environment.

The Society is exposed to future changes in UK house prices

The value of the Society's mortgage portfolio is influenced by UK house prices, and a significant portion of the Society's revenue is derived from interest and fees paid on its mortgage portfolio. As at 4 April 2019, £151.4 billion, or 82 per cent., of the Society's residential mortgage lending 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 Society'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 Society 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 Society's ability to grow its residential mortgage portfolio. The UK's planned exit from the EU has caused considerable uncertainty about the near-term prospects for UK house prices, and significant downwards pressure cannot be discounted.

In addition, the Society also has a significant portfolio of specialist mortgages, which amounted to £34.5 billion, or 18 per cent., of the Society's residential mortgage lending as at 4 April 2019. BTL mortgages constitute the vast majority of the Society's specialist mortgages portfolio. The BTL market in the UK is predominantly dependent upon yields from rental income to support mortgage interest payments and capital gains from capital appreciation. Falling or flat rental rates and decreasing capital values, whether coupled with higher mortgage interest rates or not, could reduce the potential returns from BTL properties. In addition, the Government has passed legislation restricting the amount of income tax relief that individual landlords can claim for residential property finance costs (such as mortgage interest) to the basic rate of tax, which may result in lower gross yields, and even negative cashflow, on BTL property investments. This restriction has been introduced gradually, and will be fully in place on 6 April 2020. So far, the measures have had no noticeable impact on BTL market arrears. The BoE has also stated that it is considering increasing the regulatory capital requirements of banks holding BTL mortgages on their balance sheets, although no specific proposals have been made. From 1 April 2016, a higher rate of stamp duty land tax ("**SDLT**") has been applied to the purchase of additional properties (such as BTL properties). The current additional rate is 3 per cent. above the current SDLT rates. These factors could make the purchase of BTL properties and/or second homes a less viable investment proposition and reduce the demand for related mortgages, which may also affect the resale value of relevant or similar properties.

The Government's intervention into the housing market through buyer assistance schemes, or indirectly through measures that provide liquidity to the banking sector (as was the case with FLS and TFS), may also contribute to volatility in house prices. This could occur: for example, as a result of the sudden end to buyer assistance schemes, which could lead to a decrease in house prices, or due to their continuation, which would

maintain excess funding liquidity in the mortgage market which has supported a low mortgage interest rate environment, and which could lead to inflation in house prices.

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. The FCA published its Mortgages Market Study Final Report (MS16/2) in March 2019. Whilst it found that the mortgage market is working well in many respects, the report illustrated a number of areas for improvement relating to customer choice and the ability of customers to switch mortgage providers. On 26 March 2019, the FCA published Consultation Paper CP19/14 entitled "*Mortgage customers: proposed changes to responsible lending rules and guidance*" setting out detailed proposals to remove regulatory barriers to changing mortgages for "mortgage prisoners". CP19/14 closed for comments on 26 June 2019. The term "mortgage prisoners" has been defined by the FCA to mean mortgage customers who would benefit from changing their mortgage product (either with their existing lender or with a new lender) but are unable to do so despite being up to date with their current mortgage payments. The changes to the FCA's Mortgages and Home Finance: Conduct of Business sourcebook (the "**MCOB**") proposed by CP19/14 should make it easier for a customer who is a mortgage prisoner to switch to a new lender. This could lead to an increase in redemptions of mortgages sooner than anticipated, thereby reducing the interest payable on those loans. On 7 May 2019, the FCA published Consultation Paper CP19/17 entitled "*Consultation on mortgage advice and selling standards*" which proposes changes to the FCA's mortgage advice and selling standards to address some of the concerns identified in the Mortgages Market Study relating to mortgage advice. CP19/17 closed for comments on 7 July 2019. It is possible that further changes may be made to the MCOB as a result of these and future reviews, studies and regulatory reforms which could have a material adverse effect on the Society's business, finances and operations. Any failure to comply with these rules may entitle a borrower to claim damages for loss suffered or set-off the amount of the claim against monies owing under a regulated mortgage contract and the new rules may also negatively affect mortgage supply and demand.

The future impact of these initiatives on the UK housing market and other regulatory changes or Government programmes 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 Society's business, financial condition and results of operations.

Given the relatively point-in-time approach used by the Society for modelling residential mortgage risk weighted assets ("**RWAs**") by comparison with other large UK banking institutions, a reduction in UK house prices, or other deterioration in economic conditions, may have a material impact on the Society's CET1 Ratio. The degree to which the Society's CET1 Ratio is impacted by such events is likely to change following introduction of more through-the-cycle modelling approaches, which the Prudential Regulation Authority ("**PRA**") requires to be in place by the end of December 2020. The results of the concurrent stress testing undertaken by the BoE, available on the BoE's website, illustrate the impact that certain economic scenarios are projected to have on the Society's capital position.

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

On 23 June 2016, the UK held a referendum (the "**UK EU Referendum**") on its membership of the EU, in which a majority voted for the UK to leave the EU ("**Brexit**"). Immediately following the result, the UK and global stock and foreign exchange markets commenced a period of significant volatility, including a steep devaluation of the pound sterling. There remains significant uncertainty relating to the UK's exit from, and future relationship with, the EU and the basis of the UK's future trading relationship with the rest of the world. On 29 March 2017, the UK Prime Minister gave notice under Article 50(2) of the Treaty on the European Union and officially notified the European Union of the UK's intention to withdraw from the EU. The delivery of the Article 50(2) notice triggered a two year period of negotiation to determine the terms on

which the UK will exit the EU and the framework for the UK's future relationship with the EU (the "**Article 50 Withdrawal Agreement**"). On 10 April 2019, following an earlier extension to 12 April 2019, this date was extended to 31 October 2019.

It remains uncertain whether the Article 50 Withdrawal Agreement, or any other agreement relating to the UK's future relationship with the EU, will be finalised and ratified by the UK and the EU. There are ongoing political discussions around Brexit, including discussions on delaying the timing for the UK's exit from the EU to provide more time for the UK and the EU to finalise negotiations on and ratify the Article 50 Withdrawal Agreement. In the event that the Article 50 Withdrawal Agreement is agreed on substantially the same terms as currently provided for, the agreed principle transition period would extend the application of European Union law, and provide for continuing access to the European Union single market, until the end of 2020. If the Article 50 Withdrawal Agreement is not ratified and the timing of Brexit is not extended further, the Treaty on European Union and the Treaty on the Functioning of the European Union will cease to apply to the UK from 31 October 2019. Whilst continuing to contemplate a negotiated exit from the EU, the UK Government continues preparations for a "hard Brexit" or "no-deal" Brexit to minimise the risks for firms and businesses associated with an exit with no transitional agreement or other arrangements. This has included publishing legislation under powers provided in the European Union (Withdrawal) Act 2018 to ensure that there is a functioning statute book on the UK's exit from the EU. The European authorities have not provided UK firms and businesses with similar assurances in preparation for a "hard" Brexit although some member states have individually announced or introduced their own measures to mitigate relevant issues. Due to the ongoing political uncertainty as regards the terms of the UK's withdrawal from the EU and the structure of the future relations between the UK and the EU, it is not possible to determine the precise impact on general economic conditions in the UK (including on the performance of the UK housing market) and/or on the Society or the business of any other party to the transaction documents..

A general election in the UK was held on 8 June 2017. The general election resulted in a hung parliament with no political party obtaining the majority required to form an outright government. On 26 June 2017 it was announced that the Conservative Party had reached an agreement with the Democratic Unionist Party (the "**DUP**") in order for the Conservative Party to form a minority government with legislative support ("confidence and supply") from the DUP. Notwithstanding such confidence and supply agreement, an impasse in Parliament on the nature and terms of Brexit ultimately led the Prime Minister to resign and a new Prime Minister was appointed on 24 July 2019. The new UK Prime Minister has repeatedly stated his intention that the UK will leave the EU on 31 October 2019, with or without a withdrawal agreement. The EU has stated that it is not prepared to re-negotiate the draft withdrawal agreement which currently exists. As a result, it is generally considered that there is an increased likelihood of a "hard" or "no-deal" Brexit.

In September 2019, shortly before Parliament was prorogued until mid-October (although such proroguing is the subject of an ongoing legal challenge), it passed a law requiring the Prime Minister to seek a further extension to the Brexit deadline from the EU in the event an exit deal is not reached and ratified by both the EU and the UK by 19 October 2019 (unless Parliament otherwise permits). It is presently unclear whether the Prime Minister will seek such an extension. If sought, a decision by the EU to grant such an extension must be unanimous, and it is unclear whether the EU will grant an extension if requested. Accordingly, there remains a possibility that the UK's membership ends on 31 October 2019 without reaching any agreement on the terms of the UK's relationship with the EU going forward, meaning the UK would leave the EU without any transition period.

The continued Brexit impasse in Parliament has also resulted in a number of Conservative MPs resigning the whip or having it removed, with the effect that the Government no longer has a functioning majority in Parliament. As such, a further general election is expected to take place, potentially as early as November 2019. The result of any such election, the nature and policies of the resulting government and any corresponding impact on the business, financial condition and prospects of the Society, are difficult to predict.

The continuing uncertainty surrounding the Brexit outcome continues to have an effect on the UK economy, particularly towards the end of 2018 and in 2019, and this may continue during the remainder of 2019.

Consumer and business confidence indicators have continued to fall, for example the Growth from Knowledge ("**GfK**") consumer confidence index fell to minus 13 in June 2019, and this has had a significant impact on consumer spending and investment, both of which are vital components of economic growth. The outcome of Brexit remains unclear and a UK exit from the EU without an agreement continues to remain a possibility. The general consensus view is that this would have a negative impact on the UK economy, affecting its growth prospects, based on scenarios put forward by such institutions as the BoE, HM Government and other economic forecasters.

While the longer term effects of the UK's imminent departure from the EU are difficult to predict, there is short term political and economic uncertainty. The Governor of the BoE warned that the UK exiting the EU without a deal could lead to considerable financial instability, a very significant fall in property prices, rising unemployment, depressed economic growth, higher inflation and interest rates. The Governor also warned that the BoE would not be able to apply interest rate reductions. This could inevitably affect the UK's attractiveness as a global investment centre, and would likely have a detrimental impact on UK economic growth.

If a "no-deal" Brexit occurs, it would be likely that the UK's economic growth would slow significantly, and there may be severely adverse economic effects.

Due to the ongoing political uncertainty as regards the terms of the UK's withdrawal from the EU and the structure of the future relationship, the precise impact on the Society's business is difficult to determine. Among other consequences, the UK's withdrawal from the EU could materially change the legal framework applicable to the Society's operations, including in relation to its regulatory capital requirements and could result in restrictions on the movement of capital and the mobility of personnel. Any of these factors could result in higher operating costs and no assurance can be given that the UK's withdrawal from the EU will not adversely affect the Society's business, financial condition and results of operations and/or the market value and/or the liquidity of the Securities in the secondary market.

Rating downgrade and/or market sentiment with respect to the Society, the financial services sector, the UK and/or other sovereign issuers may have an adverse effect on the Society's performance

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

The Society's senior preferred ratings are currently "A (positive)" from S&P, "Aa3 (negative)" from Moody's and "A+ (stable)" from Fitch (December 2018: "A (positive)", "Aa3 (negative)" and "A+ (stable)", respectively) and its short-term ratings are currently "A-1" from S&P, "P-1" from Moody's and "F1" from Fitch (December 2018: "A-1", "P-1" and "F1", respectively). The long-term ratings assigned by each of Moody's and S&P are senior preferred ratings, whereas the long-term rating assigned by Fitch is a senior non-preferred rating.

As at the date of this Offering Circular, the most recent ratings actions in respect of the Society taken by each rating agency are as follows:

- Fitch (March 2019): placed the Long Term Society Default Rating of the Society, along with eighteen other UK banking groups, on Ratings Watch Negative. The senior preferred unsecured debt rating was unchanged at "A+". The Ratings Watch Negative reflects the heightened uncertainty over the ultimate outcome of the Brexit process and the increased risk that a disruptive "no-deal" Brexit could result in negative action in the UK banks, with the likelihood that negative outlooks will be assigned.

- S&P (November 2018): reaffirmed their positive outlook reflecting their expectation that the Society's buffer of bail-in instruments could exceed their threshold for two notches of Additional Loss Absorbing Capacity ("**ALAC**") uplift over their 18-24 month forecast horizon.

- Moody's (February 2019): affirmed the ratings of the Society's unsecured debt and deposits at "Aa3"/"P-1", with a negative outlook. This outlook reflects the uncertainties embedded in Moody's forward looking view on the loss given failure of the Society's senior debt.

Any declines in those aspects of the Society's business identified by the rating agencies as significant could adversely affect the rating agencies' perception of its credit and cause them to take negative ratings actions. Any downgrade in the Society'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 Society 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 Society'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 Society's business, results of operations and financial condition.

If the ratings analysis of any agency that rates the Society's credit is updated to reflect lower forward-looking assumptions of systemic support in the current environment or higher assumptions of the risks in the financial sector, it could result in a downgrade to the outlook or to the credit ratings of UK financial institutions, including the Society, which could have a material adverse effect on the borrowing costs, liquidity and funding of all UK financial services institutions, including the Society. Any downgrade in the Society's ratings could also create new obligations or requirements for the Society under existing contracts with its counterparties that may have a material adverse effect on the Society's business, financial condition, liquidity or results of operations. For example, as at 4 April 2019, the Society would have needed to provide additional collateral amounting to £3 billion in the event of a one notch downgrade by external credit rating agencies.

As at the date of this Offering Circular, the UK's long-term ratings are "AA (negative)" from S&P, "Aa2 (stable)" from Moody's and "AA (Ratings Watch Negative)" from Fitch. Any downgrade of the UK sovereign credit rating or the perception that such a downgrade may occur could destabilise the markets, impact the Society's rating, its borrowing costs and its ability to fund itself and have a material adverse effect on the Society's operating results and financial condition. In addition, a UK sovereign downgrade, or the perception that such a downgrade may occur, would be likely to depress consumer confidence, restrict the availability, and increase the cost, of funding for individuals and companies, depress economic activity, increase unemployment and/or reduce asset prices. These risks are exacerbated by concerns over the levels of the public debt of, the risk of further sovereign downgrades of, and the weakness of the economies in, certain weaker Eurozone countries. Further instability within these countries or others within the Eurozone might lead to instability in the UK and in the global financial markets.

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

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

The Society is currently the fourth largest household savings provider and the second largest provider of residential mortgages in the United Kingdom, with estimated market shares of approximately 10.1 per cent. (as calculated by the Society based on BoE data) and 13.1 per cent. (according to BoE data), respectively, as at 4 April 2019.

The Society 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 from the prolific fintech sector. On 14 September 2018, the Society announced an additional technology investment of £1.3 billion, taking its overall investment plans to £4.1 billion over the five years to 2023.

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

The main competitive threat continues to come from the established "Big 5" banks (HSBC, Barclays, RBS Lloyds, Santander). This affects mortgages, deposits and the personal current account markets.

Mortgage competition is being driven by certain ring-fenced banks as they deploy surplus liquidity in lending markets. In this they have a further advantage from the lower cost of their deposits which, in turn, stems from their significant market shares in low/zero cost transactions balances associated with personal current accounts.

With a strong position in lower cost transactions deposits and surplus liquidity, the Big 5 banks have been able to stand back from the recent firming of deposit rates. Deposit market competition, particularly for more rate-sensitive savings balances is instead being driven by smaller, newer, faster growing lenders with higher-risk / higher yielding loan books (in specialist mortgages, unsecured or SME lending) who also benefit from FSCS backing. In addition, deposit market competition is being heightened by many lenders' imminent need to replace drawings made under official funding schemes with alternative sources of funding.

In personal current accounts (and their associated non-rate-sensitive deposit balances), the scale of the existing account bases and strategic investment programmes of the Big 5 banks, makes them prime competitors. Fintech neo-banks are a significant potential threat. In this group Monzo and Starling appear to be the front runners in terms of their progress with recruitment and the quality of their propositions. However, recent information suggests that their ability to build primacy and establish an income base is unproven though, equally, they could still make a breakthrough to challenge the Big 5 bank incumbents.

Across all financial product markets, a full-scale entry by one or more of the very large technology companies (such as Alphabet or Amazon) remains a potential threat.

Parallel with these developments, the price comparison / "marketplace" websites, fintech mortgage brokerage, peer-to-peer lenders and the many personal financial management tools that are emerging from the fintech sector are becoming more popular and widely used, allowing customers to compare products more easily and make buying decisions based on price. As a consequence, there is a risk that this will create downward pressure on prices, negatively impacting the Society's ability to deliver its strategic income targets and its financial performance. Competition may also intensify in response to consumer demand, further technological changes and the impact of consolidation amongst the Society's competitors.

All of this places elevated focus on price and service as the key differentiators, each of which carries a cost to the provider. As a member-owned business, the Society is able to provide a financial benefit to its members through the offer of competitive savings and mortgage products. The Society's financial member benefit is delivered in the form of differentiated pricing and incentives, which it quantifies as the sum of its interest rate differential, member reduced fees and incentives. In the years ended 4 April 2019, 2018 and 2017, the Society estimated that benefit at £705 million, £560 million and £505 million, respectively. If the Society is unable to match the efficiency of its competitors in relation to both prices and service, it risks losing competitive advantages and being unable to attain its strategic growth aspirations.

Regulatory action might also increase competitive pressures. For example, the Competition and Markets Authority (the "**CMA**") undertook a market investigation into competition in the personal current accounts and the small and medium-sized enterprises ("**SME**") retail banking markets. The CMA published its final report on 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. On 18 December 2018, the FCA published Consultation Paper CP18/42 entitled "*High-Cost Credit Review: Overdrafts consultation paper and policy statement*" aimed at encouraging competition as well as proposing interventionist measures in relation to the high level and complex pricing structures as well as repeated overdraft use. The FCA published PS19/16 entitled "*High-cost Credit Review: Overdrafts policy statement*" on 7 June 2019 setting out the FCA's final rules. The rules require (among other things) firms to align the prices of unarranged overdrafts so that they are no more expensive than arranged overdrafts and simplify their overdraft pricing structures to charge a single annual rate of interest for both arranged and unarranged overdrafts, resulting in a ban on all other overdraft fees (other than fees for refused payments). The overdraft pricing rules are due to come into force on 6 April 2020. On 7 June 2019, the FCA published Consultation Paper CP19/18 entitled "*Overdraft pricing and competition remedies*", which sets out proposals requiring firms to publish overdraft prices and fees to improve transparency and promote more effective competition for overdrafts. CP19/18 closes for comments on 7 August 2019 and the FCA intends to publish amendments to its rules in September 2019. There can be no assurance that the Society's customer base, levels of deposits, revenue or market share will not be adversely affected by the remedial measures and other regulatory actions arising out of the investigation and consultation.

The FCA launched its Strategic Review of Retail Banking Business Models in May 2017 to evaluate matters relating to competition and conduct. This review was intended to ensure that the FCA's regulatory approach remains fit for purpose as well as to protect customers and promote effective competition. The FCA's final report was published on 18 December 2018 and proposed some further work in this area, including ongoing monitoring of retail banking business models by the FCA.

On 23 April 2019 the FCA published Feedback Statement FS19/2 entitled "*A duty of care and potential alternative approaches: summary of responses and next steps*", following on from Discussion Paper DP18/5 published in July 2018. The FCA is considering introducing new duty of care requirements that could place a general obligation on firms to act in the best interests of consumers. The FCA intends to publish a further paper in autumn 2019 outlining specific options for change. It is possible that changes may be made to the FCA's rules and guidance, in particular its Principles for Businesses, as a result.

The CMA remedial measures referred to above, together with other changes arising from the implementation of the second payment services directive ("**PSD2**") in January 2018, are commonly referred to as "open banking" ("**Open Banking**"). The aim of Open Banking is to create more transparency and fairness in the UK banking and financial services market through greater competition and innovation. It has the potential to significantly disrupt traditional personal financial services models and to radically reshape the banking landscape in the UK. Open Banking will require financial institutions such as the Society to provide

registered third party organisations with transactional information where the consent of the customer or member is provided, and also to make public and openly share their product information, as well as customer satisfaction scores and other service level indicators. This makes it possible for consumers to share their financial transactional data more easily with third parties online, allows third parties to initiate payments directly from a person's account as a bank transfer as an alternative to credit or debit card payments, and enables customers or such third party providers to more easily compare products offered by different institutions. This offers the prospect of an enhanced banking experience for the customer – for example, providers could offer comparison and switching services to help customers identify the best financial products for them and, over time, potentially enable customers to automate management of their finances to some degree, such as authorising service providers to transfer their finances to more competitive products on a regular and ongoing basis.

Whilst Open Banking presents opportunities for the Society, there are also significant risks, including if technology is adopted more quickly than anticipated or new propositions offered by competitors attract business away from it or alter customer expectations. Further, the implementation of Open Banking could result in the emergence of new disruptors and competitors, potentially with substantially different business models, that could materially alter the banking environment. Such changes could affect the Society's ability to attract and retain customers, which in turn could potentially adversely affect liquidity and increase its funding costs over time. Whilst the Society is investing in developing Open Banking solutions to support members' needs and to mitigate this risk, there can be no assurance that its efforts will be successful or that it will be able to compete effectively with existing competitors and/or new entrants to attract and retain customers.

Furthermore, increased use of technology may increase the Society's exposure to significant risks associated with cyber security, fraud, IT resilience and data protection, as well as increased compliance costs. See "*—If the Society does not control its operational risks, including, in particular, maintaining cyber security and managing the pace of change around digital products and services, it may be unable to manage its business successfully*".

Additionally, the implementation of the Independent Commission on Banking's recommendation to separate retail banking activities from wholesale and investment banking activities to be 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 Society considers to be a competitive advantage. This may, in time, alter the business models of ring-fenced banks and may therefore alter adversely the competitive position of the Society 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 Society expects customers to transact more, and in many different ways. The Society 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 Society'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 Society 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.

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

The management of financial and operational risks requires, among other things, robust guidelines and policies for the accurate identification and control of a large number of transactions and events. Such

guidelines and policies may not always prove to be adequate in practice. The Society faces a wide range of risks in its business activities, including, in particular:

- liquidity and funding risk, see "*—Risks that reduce the availability or increase the cost of the Society's sources of funding, such as retail deposits and wholesale money markets, may have an adverse effect on the Society's business and profitability*" above;

- credit risk, which is the risk that a borrower or a counterparty fails to pay interest or to repay the principal on a loan or other financial instrument;

- market risks, in particular interest rate risk as well as foreign exchange and bond and equity price risks. Changes in interest rate levels, yield curves and spreads may affect the Society's interest rate margin realised between lending and borrowing costs. Changes in currency rates, particularly in the sterling-dollar and sterling-euro exchange rates, affect the value of assets and liabilities denominated in foreign currencies and may affect income from assets and liabilities denominated in foreign currency. The performance of financial markets may also cause changes in the value of the Society's investment and liquidity portfolios. See also, "*—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 Society's customers, clients and counterparties, which could in turn adversely affect the Society*" above and "*—Market risks may adversely impact the Society's business*" above; and

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

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

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

The Society's success as a financial institution depends on its ability to process a very large number of transactions efficiently and accurately. Operational risk and losses can result from a range of internal and external factors. Internal factors include fraud, errors by employees, failure to document transactions properly or to obtain proper internal authorisation, failure to comply with regulatory requirements and conduct of business rules and equipment failures, particularly in relation to electronic banking applications. External factors include natural disasters, war, terrorist action or the failure of external systems, for example, those of its suppliers or counterparties. These could, for example, prevent the Society's customers from withdrawing cash from the Society's ATMs or from having their salary credited to their accounts with the Society and, if customers associate their problem with the Society rather than with the institution causing the problem, this would have an operational and financial impact on the Society'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 Society'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 Society 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 resilient IT systems, including hardware, software, cloud computing services and cyber-security, remains an evolving risk to financial institutions including the Society. The Society's implementation of new systems, infrastructures and processes, alongside the maintenance of legacy systems, introduces a level of operational complexity. In an increasingly digital world, customer expectations are rising, with a significantly lower tolerance of service disruption. Ensuring a highly reliable and widely available service requires resilient IT, business systems and processes. Furthermore, the sharing of customer data, and the enabling of direct payments by third party providers from a customer's account as a result of Open Banking, may give rise to significant risks associated with cyber security, fraud, IT resilience and data protection, as well as increased compliance costs and risks associated with the Society becoming liable for, or otherwise being required to protect customers against, the costs and/or liabilities of other third party providers and/or losses caused by the actions of such other third party providers. Any loss in the integrity and resilience of key systems and processes, data thefts, cyber-attacks, denial of service attacks or breaches of data protection requirements could significantly disrupt its operations and cause significant financial loss and reputational damage to the Society. This could in turn result in a loss of confidence in the Society, potentially resulting in existing customers withdrawing deposits and/or deterring prospective new customers.

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 continues to increase and has been highlighted by a number of recent attacks in the financial and non-financial sectors, including payment services. Such attacks have also increased the public awareness of cyber-threats. As a result of the continued increasing threat from cyber-crime, security controls have needed to keep pace to prevent, detect and respond to any threats or attacks. The constant threat posed by a cyber-attack directly impacts the existing risks associated with external fraud, data loss, data integrity and availability. Although the Society maintains measures designed to ensure the integrity and resilience of key systems and processes, it may be the victim of cyber-attacks, including denial of service attacks which could significantly disrupt the Society's operations and the services it provides to its customers, or attacks designed to obtain an illegal financial advantage. Any such attack or any other failure in the Society's IT systems could, amongst other things, cause significant financial loss and reputational damage to the Society, and could result in a loss of confidence in the Society, 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 Society's core markets and product pricing, particularly if it is unable to introduce competitive products and services sufficient to match its traditional and challenger competitors.

Although the Society has implemented risk controls and loss mitigation actions, and substantial resources are devoted to technology, 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.

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

The Society 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 Society has used the most recent guidance from regulators regarding the maximum expected capital requirements for the Society to develop its financial performance framework. This framework provides parameters which will 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. One of the most important of these parameters is profit, management of which is a key component in maintaining the Society's capital strength. The Society believes that a level of underlying profit of approximately £0.9 billion to £1.3 billion per annum over the medium-term would meet the Board's objective for sustainable capital strength.

This range will vary from time to time, and whether the Society's profitability falls within or outside this range in any given financial year or period will depend on a number of external and internal factors, including conscious decisions to return value to members or to make investments in the business. There can be no assurance the Society will continue to generate profits within this range and it 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, achieving sustainable cost savings and embedding efficiencies remains a priority for the Society. The Society has delivered a further £103 million of new in-year sustainable saves during 2019. On a cumulative basis, including the full year benefit of sustainable saves delivered over the last two years, the Society has now delivered over half of its target of £500 million of sustainable saves by 2030. This has been achieved through a range of initiatives that are focused on the development of digital capabilities, organisational design, third party savings, process improvements, simplification and elimination. However, there can be no assurance that such targeted cost savings will be achieved. Any failure by the Society 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 Society.

Market risks may adversely impact the Society's business

Market risk is the risk that the net value of, or net income arising from, the Society'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 Society's investment and liquidity portfolios. Although the Society has implemented risk management methods designed to mitigate and control these and other market risks to which the Society 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 Society's financial performance and business operations.

Concentration risks may adversely impact the Society's business

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

Reputational risk could cause harm to the Society and its business prospects

The Society's reputation is one of its most important assets and its ability to attract and retain customers and conduct business with its counterparties could be adversely affected to the extent that the Society's

reputation or the reputation of the Society's brand is damaged. Failure to address, or appearing to fail to address, various issues that could give rise to reputational risk could cause harm to the Society and its business prospects. Reputational issues include, but are not limited to:

- failing to appropriately address potential conflicts of interest;
- breaching, or facing allegations of having breached, legal and regulatory requirements (including money laundering and anti-terrorism financing requirements);
- acting or facing allegations of having acted unethically (including having adopted inappropriate sales and trading practices see "*—The Society is exposed to risks relating to the mis-selling of financial products, acting in breach of legal or regulatory principles or requirements and giving negligent advice*" below);
- failing or facing allegations of having failed to maintain appropriate standards of customer privacy, customer service and record-keeping;
- technology failures that impact upon customer service and accounts or the failure of intermediaries or third parties on whom the Society relies;
- limiting hours of or closing branches due to changing customer behaviour;
- failing to properly identify legal, reputational, credit, liquidity and market risks inherent in products offered; and
- generally poor business performance.

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

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

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

- certain aspects of the Society's business may be determined by the BoE, 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 Ombudsman's opinion;
- the alleged mis-selling of financial products, including as a result of having sales practices and/or rewards structures that are deemed to have been inappropriate, may result in disciplinary action (including significant fines) or requirements to amend sales processes, withdraw products, or provide restitution to affected customers, all of which may require additional provisions to be recorded in the Society's financial statements and could adversely impact future revenues from affected products; and

- the Society may be liable for damages to third parties harmed by the conduct of the Society's business.

In addition, the Society 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 Society'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 and followed the Consultation Paper (CP10/06). 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. The BBA chose not to appeal this ruling and the obligation for firms to comply with PS10/12 resulted in very significant provisions for customer redress made by several UK financial services providers.

The Society holds provisions for customer redress to cover the costs of remediation and redress in relation to past sales of financial products and ongoing administration, including non-compliance with consumer credit legislation and other regulatory requirements. The net charge of £15 million in the year ended 4 April 2019 (compared to £26 million as at 4 April 2018) reflected the Society's estimate of its customer redress liabilities, including an anticipated increase in PPI-related claims towards the deadline of 29 August 2019 imposed by the FCA for the filing of PPI complaints. On 13 September 2019, the Society announced that, in line with experience in the broader market, it had received a higher than anticipated volume of complaints and enquiries in the period immediately before the deadline and that, whilst the quality and outcome of these complaints and enquiries remains uncertain, the Society's preliminary (unaudited) estimate is that an incremental charge will be made in the range of £20 million to £50 million. Whilst the processing of complaints and enquiries continues, and the ultimate provision recognised could be above or below this range, the upper end of this provisional estimate is not considered significant to the Society's financial position (representing c.15 basis points and c.2 basis points on its CET1 and leverage ratios, respectively).

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

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

Given the high level of interdependence between financial institutions, the Society 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 Society 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 Society interacts on a daily basis. Systemic risk could have a material adverse effect on the Society's ability to raise new funding and on its business, financial condition, results of operations, liquidity and/or prospects.

The Society 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 Society 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.

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

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

For example, IFRS 9: "*Financial Instruments*" is the new standard that replaced IAS 39: "*Financial Instruments: Recognition and Measurement*". It changed the classification and measurement of some financial assets, the recognition and the financial impact of impairment and hedge accounting. IFRS 9 was required to be implemented in the Society's financial statements for the year ending 4 April 2019. On 5 April 2018, the Society implemented IFRS 9: "*Financial Instruments*". The total impact on members' interests and equity, net of deferred tax, was a reduction of £162 million. There has been no restatement of comparatives following adoption of IFRS 9.

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

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

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

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

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

The Society has identified certain accounting policies in the notes to its audited consolidated financial statements for the year ended 4 April 2019 (the "**2019 Financial Statements**") incorporated by reference in this Offering Circular in respect of which significant judgement is required in determining appropriate assumptions and estimates when valuing assets, liabilities, commitments and contingencies. These judgements relate to the assumptions used in the determination of impairment provisions on customer loans and advances (see note 10 to the 2019 Financial Statements), the estimates underlying its determination of provisions for customer redress (see note 27 to the 2019 Financial Statements) and the assumptions underlying its calculations of retirement benefit obligations (see note 30 to the 2019 Financial Statements).

A variety of factors could affect the ultimate value that is obtained either when earning income, recognising an expense, recovering an asset or reducing a liability. The Society has established detailed policies and control procedures that are intended to ensure that these judgements (and the associated assumptions and estimates) are well controlled and applied consistently. In addition, the policies and procedures are intended to ensure that the process for changing methodologies occurs in an appropriate manner. Because of the uncertainty surrounding the Society's judgements and the estimates pertaining to these matters, the Society cannot guarantee that it will not be required to make changes in accounting estimates or restate prior period financial statements in the future and any such changes or restatements could be material in nature.

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

The Society maintains defined benefit and defined contribution pension schemes for past and current employees. The defined benefit scheme has been closed to new entrants since 2007. The assets of pension schemes are held and managed by trustees separate from the Society's assets. Contributions to the defined benefit scheme are assessed by independent actuaries and agreed between the trustees and the Society. Risk arises from the schemes because the value of their asset portfolios and returns from them may be less than expected and because there may be greater than expected increases in the estimated value of the schemes' liabilities. In these circumstances, the Society could be obliged, or may choose, to make additional contributions to its pension schemes. In the year ended 4 April 2019, the year ended 4 April 2018 and the year ended 4 April 2017, the Society made additional employer deficit contributions of £61 million, £86 million and £149 million, respectively, to its pension scheme. As at 4 April 2019, it had a deficit of £105 million (£345 million as at 4 April 2018) in its pension schemes. The reduction in the deficit since 4 April 2018 is largely due to improving market conditions combined with an employer deficit contribution of £61 million agreed as part of the 2016 triennial valuation. Depending on the pace and nature of any future macro-economic recovery, the Society may be required or may elect to make further contributions to its defined benefit pension schemes, which could be significant and have a negative impact on its results of operations.

In addition, the accounting deficit in the Society's defined benefit pension scheme is reflected in its CET1 capital. Accordingly, an increase in the deficit can result in a reduction in its capital ratios.

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

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

The Senior Managers and Certification Regime may have a substantial impact on the Society's business

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

staff to all bank staff other than those undertaking purely ancillary functions; and (v) the introduction of criminal offences relating to decisions by senior bank staff causing a financial institution to fail. 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 and consult on future changes to the SM&CR. The most significant and imminent change comprises the application of SM&CR to solo-regulated firms in December 2019, in respect of which the FCA published guidance on 8 March 2019. However, this change relates to FCA solo-regulated firms only, so will not affect the Society. The SM&CR will continue to have a substantial impact on banks and building societies in the UK generally, including the Society.

Risks Related to Regulations/the Regulatory Environment

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

The Society conducts its business subject to ongoing regulation by the PRA and the FCA, which oversee the Society's prudential arrangements and the sale of its products, including, for example, residential mortgages, commercial lending, savings, investment, consumer credit and general insurance products. The regulatory regime requires the Society to be in compliance across many aspects of activity, including the training, authorisation and supervision of personnel, systems, processes and documentation. The financial sector has seen an unprecedented volume and pace of regulatory change in the years following the global financial crisis, and significant resource has been required to assess and implement necessary changes. If the Society fails to comply with any relevant regulations, there is a risk of an adverse impact on its business due to sanctions, fines or other action imposed by the regulatory authorities.

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

A range of legislative and regulatory changes have been made by regulators and other bodies in the UK and the EU which could impose operational restrictions on the Society, 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:

- Directive 2004/39/EC ("**MiFID**") and its various implementing measures have been recast as a revised directive (Directive 2014/65/EU) ("**MiFID II**") and a new regulation (Regulation 600/2014/EU, the Markets in Financial Instruments Regulation or "**MiFIR**"), which entered into force on 2 July 2014, which together regulate the provision of investment services and activities in relation to a range of customer-related areas, including customer classification, conflicts of interest, client order handling, investment research and financial analysis, suitability and appropriateness, transparency obligations and transaction reporting. The changes to MiFID include expanded supervisory powers that include the ability to ban specific products, services or practices. The majority of the provisions of MiFID II and MiFIR and the implementing laws and regulations have applied since 3 January 2018.

- The Payment Services Regulations 2009 ("**PSRs**") were repealed and replaced as a result of PSD2. PSD2 came into force on 12 January 2016 and member states, including the UK, were required to transpose it into national law by 13 January 2018. In the UK, PSD2 has been transposed in the Payment Services Regulations 2017. Key changes include the requirement for account information services and payment initiation services to be regulated, new security requirements, increased reporting obligations and increased focus on consumer protection. There are also changes to the scope of the conduct of business rules and the list of exemptions. In December 2018, the FCA published a policy statement ("**PS 18/24**") on its approach to final regulatory technical standards ("**RTS**") for strong customer authentication and common and secure open standards of

communication, as well as other related EBA guidelines. PS 18/24 sets out the FCA's approach to the RTS assessing whether bank and other online account providers are properly set up to enable Open Banking. Amended fraud reporting requirements also applied from 1 January 2019. PS 18/24 introduces new rules on reporting complaints about authorised push payment fraud, which came into force on 1 July 2019. The Payment Services (Amendment) Instruments 2018 contain corresponding changes to the Payment Services Regulations 2017 and the FCA Handbook.

- The General Data Protection Regulation came into force on 25 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 (for example, 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.

- In July 2018, the BoE, PRA and FCA published a joint discussion paper on their intended approach to improve the operational resilience of firms (supervised by the FCA/PRA) and Financial Market Infrastructures ("**FMIs**") (supervised by the BoE). The discussion paper introduces a concept of "impact tolerance", encouraging firms to ensure key business services are sufficiently resilient to a wide range of threats. The deadline for responses to the paper was 5 October 2018. The FCA, PRA and BoE will work to develop proposals for their respective supervisory approaches, but it is not yet clear what form any rules on operational resilience may take or what effect they may have on the Society's operations. The BoE currently proposes to publish a consultation paper later in 2019 setting out proposed policies and explaining the approach to supervising operational resilience. The Financial Policy Committee ("**FPC**") has also undertaken work in this area, with a particular focus on cyber risk. The FPC will ask firms to conduct cyber stress testing. At an institutional level, the Basel Committee on Banking Supervision (the "**Basel Committee**") has established the Operational Resilience Working Group, which published a report on cyber resilience in December 2018. This report identifies areas in which further policy work is likely to be undertaken.

- On 30 July 2019, the BoE and PRA published final rules and policy in relation to the "Resolvability Assessment Framework" ("**RAF**"), under which the BoE and PRA will assess the readiness of UK banks and building societies for resolution. The framework is set out in a BoE Statement of Policy ("**SoP**") and a new Resolution Assessment part of the PRA Rulebook (together with a PRA Supervisory Statement). The BoE SoP only applies to UK firms with a bail-in or partial transfer resolution strategy and the relevant firms must comply with it by 1 January 2022 (although the BoE may specify an earlier date where it so chooses). The SoP specifies three "resolvability outcomes" which relevant firms must meet – (i) having adequate financial resources, (ii) being able to continue to do business through resolution and restructuring, and (iii) being able to communicate and coordinate within the firm and with authorities and markets. The new Resolution Assessment part of the PRA Rulebook applies to UK banks and building societies with £50bn or more in retail deposits (so-called "**Major Firms**"), and requires them to assess their preparations for resolution, submit reports of their assessment to the PRA (with the first report due by October 2020) and publicly disclose a summary of their report (with the first disclosure due by June 2021), every two years. In addition, the BoE will make public statements regarding each Major Firm's resolvability; these may highlight perceived shortcomings where the BoE considers that the firm in question has more work to do to be resolvable.

- The PRA has introduced Systemic Risk Buffer rates for ring-fenced banks and large building societies, which have been applied from 1 August 2019. The PRA has set a Systemic Risk Buffer rate of 1.0 per cent. of all RWAs for the Society, which applies to all exposures on a consolidated basis. This affects the amount of regulatory capital the Society has to hold.

- On 28 September 2018, the CMA received a super-complaint from Citizens Advice about loyalty pricing issues in the mobile, broadband, cash savings, home insurance and mortgages markets. The CMA investigated the complaint and published its response on 19 December 2018. In its response, the CMA recommended eight key reforms to address problems related to the "loyalty penalty" across all five markets together with market-specific reforms. In the case of cash savings, the CMA supports the FCA's work around the introduction of a basic savings rate, as well as recommending that the FCA considers if collective switching can be applied. In relation to mortgages, the CMA strongly supports the FCA's work on the mortgages market study and recommended that the FCA find out more about customers who could switch, but do not, and look at what measures can be taken to help or protect these customers where needed. The Government responded to the CMA's recommendations on 18 June 2019 indicating that it welcomed the CMA's recommendations for financial services and that the FCA has ongoing work in the cash savings, insurance and mortgage markets. In its 2019/2020 Business Plan, the FCA states that it will consider what action will best address the fact that those customers who shop around often get much better rates in the cash savings and insurance market and will publish proposals to address this, including exploring whether price interventions may be relevant.

- On 23 November 2016, the European Commission published a package of legislative proposals providing for reform of the prudential and resolution frameworks for EU banks and credit institutions. These proposals covered amendments to Regulation (EU) No 575/2013 (the "**Capital Requirements Regulation**" or "**CRR**"), Directive 2013/36/EU (the "**Capital Requirements Directive**" or the "**CRD IV**"), Directive 2014/59/EU (the "**Bank Recovery and Resolution Directive**" or "**BRRD**") and Regulation (EU) No. 806/2014 (the "**Single Resolution Mechanism Regulation**" or "**SRMR**"). Following negotiations between the European Commission, European Parliament and European Council, the final legislation implementing these proposals was published in the EU Official Journal on 7 June 2019. The legislation consists of Regulation (EU) No. 2019/876, Directive (EU) No. 2019/878, Directive (EU) No. 2019/879 and Regulation (EU) No. 2019/877 and came into force on 27 June 2019 (the "**Banking Reform Package**"), with certain provisions applying from 27 June 2019 and other provisions gradually being phased in and/or being subject to national implementation. The Banking Reform Package covers multiple areas, including the Pillar 2 framework, the leverage ratio, mandatory restrictions on distributions, permission for reducing own funds and eligible liabilities, macroprudential tools, the framework requiring relevant institutions to maintain a minimum requirements for own funds and eligible liabilities ("**MREL**") and the integration of the Financial Stability Board's proposed minimum total loss-absorbing capacity into EU legislation.

- The Basel Committee published their final reforms to the Basel III framework in December 2017. The amendments include changes to the standardised approaches for credit and operational risks and the introduction of a new RWA output floor. The rules are subject to a transitional period from 2022 to 2027. On 2 August 2019, the EBA published its policy advice on (amongst other things) the Basel III output floor, recommending implementation of the Basel Committee's framework. In addition, 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 sets 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. These reforms represent a re-calibration of regulatory requirements with no underlying change in the capital resources the Society holds or the risk profile of its assets. However, the reforms will lead to a significant increase in the Society's risk weights over time and it currently expects the consequential impact on its reported CET1 ratio ultimately to be a reduction of approximately 45-50 per cent. relative to its current methodology. Organic earnings through the transition are expected to mitigate the impact such that the Society's reported CET1 ratio will in practice remain well in excess of the *pro forma* levels imposed by these changes, and the Society expects that leverage requirements will remain the Society's binding capital constraint based

on its latest projections. See "*The Society is subject to regulatory capital and liquidity requirements which may change - RWA floors and IRB modelling*" below for further information.

As at the date of this Offering Circular, it is difficult to predict the full effect that these changes will have on the Society's operations, business and prospects or how any of the proposals discussed above will be implemented in light of the 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, the changes could have a significant impact on the Society's operations, structure, costs and/or capital requirements. Accordingly, the Society cannot assure investors that the implementation of any of the foregoing matters will not have a material adverse effect on its operations, business, results, financial condition or prospects.

Furthermore, the Society cannot assure investors that any other regulatory or legislative changes or any other Governmental interventions that may have been proposed or which may materialise in the future will not have a material adverse effect on its operations, business, results, financial condition or prospects. Whilst the scope and nature of any such changes are unpredictable, any interventions or regulations designed to increase the protections for UK retail and other customers of banks and building societies, for example through stricter regulation on repossessions and forbearance by mortgage lenders, could materially adversely affect the Society's business or operations.

The Society is also subject to a number of EU and UK proposals and measures targeted at preventing financial crime (including anti-money laundering and terrorist financing). This includes the EU's Fourth Anti-Money Laundering Directive, which was transposed into UK law in June 2017. The EU's Fifth Anti-Money Laundering Directive came into force in July 2018 and aims to enhance processes to counter money laundering and terrorist financing (including illicit activities related to cryptocurrencies). The Fifth Anti-Money Laundering Directive must be transposed into law by Member States by January 2020. Although this date is after the UK's planned exit from the EU, it is expected that the UK will implement the provisions of the Fifth Anti-Money Laundering Directive. HM Treasury launched a consultation process in April 2019 on implementing the Directive into UK law. The closing date for comments to be submitted was 10 June 2019. The Society is committed to operating a business that prevents, deters and detects money laundering and terrorist financing, and will introduce any changes required in line with the new directive and industry guidance. However, if there are breaches of these measures or existing law and regulation relating to financial crime, the Society could face significant administrative, regulatory and criminal sanctions as well as reputational damage which may have a material adverse effect on its operations, financial condition and prospects.

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

The Society is subject to wide-ranging regulatory action in the event that it is considered likely to fail and its failure poses a threat to the public interest

In the EEA, the Bank Recovery and Resolution Directive provides for a package of minimum early intervention and resolution-related tools and powers for relevant authorities and provides for special rules for cross-border groups. The UK implemented the majority of the measures under the BRRD into English law, by way of amendment to the Banking Act with effect from 1 January 2015.

Under the Banking Act, substantial powers have been granted to HM Treasury, the BoE (including the PRA) and the FCA (the "**Authorities**") as part of the Special Resolution Regime (the "**SRR**"). These powers enable the Authorities, among other things, to resolve a bank or building society by means of several resolution tools (the "**Stabilisation Options**") in circumstances in which the Authorities consider its failure

has become highly likely and a threat is posed to the public interest. In respect of UK building societies, the relevant tools include:

(i) modified property transfer powers which also refer to cancellation of shares and conferring rights and liabilities in place of such shares;

(ii) in place of the share transfer powers, a public ownership tool which may involve (amongst other things) arranging for deferred shares in a building society to be publicly owned, cancellation of private membership rights and the eventual winding up or dissolution of the building society; and

(iii) modified bail-in powers such that exercise of the tool may be immediately preceded by the demutualisation of the building society through the conversion of it into a company or the transfer of all of the property, rights or liabilities of the building society to a company.

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

The BRRD also provides that a Member State as a last resort, after having assessed and used the resolution tools set out above to the maximum extent practicable whilst maintaining financial stability, and where certain other mandatory conditions of the BRRD have been satisfied, may provide extraordinary public financial support through additional financial stabilisation tools. These consist of the public equity support and temporary public ownership tools. Any such extraordinary financial support must be provided in accordance with the EU state aid framework. Accordingly, it is unlikely that investors in the Securities or the CCDS will benefit from such support even if it were provided.

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 Society'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 Society's related group companies that meet the definition of a "banking group company".

In addition, the Banking Act contains a separate power, often referred to as the "**capital write-down tool**", enabling the Authorities to cancel or transfer CET1 instruments away from the original owners, or write down (including to nil) an institution's Additional Tier 1 capital instruments (such as the Securities) and Tier 2 capital instruments, or to convert them into CET1 instruments, if the Authorities consider that the institution or the group is at the "point of non-viability" and certain other conditions are met. The capital write-down tool must be applied before any of the Stabilisation Options provided for in the SRR may be used in practice and may be used whether or not the institution subsequently enters into resolution.

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

(i) the relevant Authority is satisfied that a relevant entity (such as the Society) is failing or is likely to fail;

(ii) having regard to timing and other relevant circumstances, the relevant Authority determines that it is not reasonably likely that (ignoring the Stabilisation 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 applied prior to the point at which any insolvency proceedings with respect to the relevant entity could be initiated.

The European Banking Authority (the "**EBA**") has published guidelines on the circumstances in which an institution shall be deemed as "failing or likely to fail" by supervisors and resolution authorities. 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 holders of the Securities of their decision to exercise any resolution power. Therefore, holders of the Securities 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 Society or the Securities.

As part of the Banking Reform Package, amendments are being made to the BRRD, the majority of which must be implemented in Member States by 28 December 2020. Such changes include the introduction of a new pre-resolution moratorium power for competent authorities and resolution authorities.

The Society is subject to regulatory capital and liquidity requirements which may change

The Society is subject to capital and liquidity requirements, including through the implementation and evolution of prudential frameworks such as those under the Basel III framework and CRR and CRD IV that could have an impact on its operations. Changes to the regulatory capital and liquidity requirements under which the Society operates could hinder growth by prescribing more stringent requirements than those with which it currently complies. UK regulators and international policymakers are finalising a number of areas of the regulatory capital framework, with a view to making changes as appropriate. These areas include (as described further below) 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 of the prudential framework

On 16 December 2010, 13 January 2011, 12 January 2014 and 7 December 2017, the Basel Committee issued guidance on a number of fundamental reforms to the regulatory capital framework (such reforms are collectively referred to as "**Basel III**"), including additional capital requirements, higher capital ratios, more stringent eligibility requirements for capital instruments, leverage ratio requirements and liquidity requirements. The original components of the Basel III reform package were implemented in the EEA through CRR and CRD IV, which were published in the Official Journal of the European Union on 27 June 2013. The CRR established a single set of harmonised prudential rules which apply directly to all credit institutions in the EEA, with CRD IV containing other provisions required to be transposed into national law. CRR gives express recognition for Common Equity Tier 1 capital instruments for mutual and co-operative entities (such as CCDS) 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 2027.

The Society's capital is reported as a ratio of capital to risk-weighted assets, expressed as a percentage in different measures – common equity tier 1 ("**CET1**") capital, tier 1 capital and total capital, and through a leverage ratio (on a quasi-voluntary basis). The Society is required to maintain certain minimum levels of regulatory capital known as the 'minimum capital requirement' (or "**MCR**") and also to meet certain capital 'buffer' requirements above such minimum level. If the Society fails, or is perceived to be likely to fail, to

meet its regulatory capital requirements, this may result in administrative actions or regulatory sanctions against it.

The Society's capital ratios may be adversely affected not only by a reduction in the Society's capital (including if the Society suffers financial losses) but also by changes in the manner in which the Society is required to calculate its capital and/or the risk-weightings applied to its assets. For example, the Society is currently authorised to apply an IRB approach to calculating its risk-weighted assets. An IRB approach enables an institution to tailor more closely risk-weights to its particular assets than standardised risk-weights, and accordingly in many cases can be expected to be lower than risk-weights which would apply under a standardised approach. If, in the future, the Society's authorisation to apply an IRB approach is withdrawn, or if for any other reason it is required to calculate its risk-adjusted assets on the basis of standardised or loan-to-value-based standardised risk-weights, or minimum risk-weights are introduced for institutions applying an IRB approach (in which regard, see further below), such change could have a significant adverse impact the Society's capital ratios, even if the Society remains profitable.

Key elements of the prudential regime under CRR and CRD IV, as amended, include the following:

- ***Increased capital requirements*** – higher minimum CET1 ratios (CET1 capital divided by RWAs) and the introduction of additional capital 'buffer' requirements comprising conservation, countercyclical and systemic risk buffers, which, following a transitional implementation period, are fully effective as of 1 January 2019, as well as additional buffers for EU banks classified as 'global systemically important institutions' ("**GSIIs**") or as 'other systemically important institutions' ("**OSIIs**");

- ***Definition of capital*** – revised criteria which instruments must meet in order to qualify for inclusion in the regulatory capital of an institution (and grandfathering provisions for legacy instruments, with the effect that the Society's permanent interest bearing shares are required to be phased out of tier 1 capital over the period from 1 January 2014 to 31 December 2021);

- ***Additional capital charges*** – an additional capital charge for credit valuation adjustment ("**CVA**") risk;

- ***Deductions from capital*** – expected losses in excess of provisions are deducted in full from CET1 capital, gross of tax;

- ***Liquidity metrics*** – a short-term liquidity stress ratio, referred to as the "**Liquidity Coverage Ratio**" or "**LCR**", and a longer-term ratio referred to as the "**Net Stable Funding Ratio**" or "**NSFR**";

- ***Leverage ratio*** – a leverage ratio, calculated by dividing Tier 1 capital by the total exposure amount (as defined in the CRR), required to be maintained at a level of at least 3 per cent.;

- ***Additional valuation adjustments*** – deductions from CET1 capital required for all assets (including derivatives) measured at fair value; and

- ***Available For Sale reserve*** – a reserve which records the unrealised gains and losses on assets measured at fair value.

The Society's capital requirements

Under the current prudential framework, the Society is required to hold a minimum amount of regulatory capital equal to 8 per cent. of its risk-weighted assets (the "**Pillar 1 requirement**"), plus additional CET1 capital buffers (the "**buffer requirement**"), which buffer requirement as of 1 August 2019 is equal to 4.5 per cent. of risk-weighted assets. In addition, the PRA may impose additional individual capital requirements on the Society, which may comprise an add-on to the Pillar 1 requirement (the "**Pillar 2A requirement**") to address risks to the Society which the PRA considers are not adequately covered by Pillar 1 requirements,

and/or an add-on to the buffer requirement (the "**Pillar 2B requirement**") to provide for additional capital buffers in a financial stress scenario. The Society's Pillar 2A requirements must be met with at least 56 per cent. CET1 capital, at least 75 per cent. Tier 1 capital and not more than 25 per cent. Tier 2 capital. Its Pillar 2B requirements must be met solely with CET1 capital. The Society may also decide to hold additional amounts of capital as part of its risk and growth strategies.

In addition, CRR, as amended, has introduced a leverage ratio, which is supplementary to the risk-based capital requirements. The calculation determines a ratio based on the relationship between Tier 1 capital and total exposures (i.e. non-risk-weighted assets), including off-balance sheet items. The leverage ratio does not distinguish between unsecured and secured loans, nor recognise the ratio of loan to value of secured lending. A binding leverage ratio requirement has also been introduced of at least 3 per cent, applicable to all credit institutions with a leverage ratio buffer also applicable to G-SIIs. The CRR expressly contemplates that a buffer requirement may be extended to EU credit institutions designated as O-SIIs if in the future, following further analysis, it is deemed appropriate. The Society is not presently designated as a GSII but has been designated as an OSII. As at the date of this Offering Circular, the OSII buffer set by the PRA for the Society is zero per cent.

In the meantime, the PRA has implemented the FPC's direction to introduce a UK leverage ratio framework. The UK leverage ratio framework is intended to mirror aspects of the risk-weighted capital requirement. The UK leverage ratio was originally set at 3 per cent. of risk-weighted assets and in 2017 was increased to 3.25 per cent. of exposures (excluding central bank reserve exposures), to reflect the removal of central bank deposits from the leverage exposure measure. At least three-quarters of the leverage ratio must be met with CET1 capital and up to one-quarter may be met with Additional Tier 1 capital. In addition, the UK leverage ratio framework includes two additional buffers that are to be met using CET1 capital only: an Additional Leverage Ratio Buffer ("**ALRB**"), applying to the largest UK banks and building societies and set at 35 per cent. of the corresponding risk-weighted systemic buffer rate, and a macro-prudential Countercyclical Leverage Buffer ("**CCLB**"), which is set at 35 per cent. of the corresponding risk-weighted countercyclical buffer (and rounded to the nearest 0.1 per cent., with 0.05 per cent. being rounded up).

Nationwide's UK leverage ratio was 4.4 per cent. at 30 June 2019 (compared with 4.9 per cent. at 30 June 2018). Given the nature of the Society's balance sheet, which is underpinned by residential mortgage assets with a low risk profile (as demonstrated by a low level of arrears compared to the industry average), the Society's current binding capital constraint is based on leverage-based (rather than risk-based) capital requirements. Based on the Society's current understanding of the proposed changes to risk-weights, and subject to final implementation, the Society currently expects that the leverage ratio will continue to be its binding capital constraint in the near-term. Future changes to the leverage ratio calibration could, therefore, have a significant impact on the financial condition and prospects of the Society.

Continued evolution of the prudential and resolution regimes

There continue to be significant developments in the prudential and resolution regimes with which the Society must comply. These include (without limitation): the phasing in of the MREL regime, requiring financial institutions (such as the Society) to hold sufficient capital and other 'eligible liabilities' instruments designed to absorb losses and to be available to recapitalise a failing bank or building society through use of the recovery and resolution tools under BRRD and the Banking Act; the introduction of capital floors for institutions which calculate risk exposures using IRB approaches; revisions to IRB models to reduce 'point in time' volatility (in which regard, the Society estimates that the impact of the revised IRB model will be to reduce its reported common equity tier 1 ratio by approximately one-third, given the material increase in risk-weighted assets, although the Society expects the UK leverage requirements to continue to be its binding capital constraint); and PRA requirements to align firms' IRB modelling approaches for residential mortgage risk-weighted assets. These changes could result in further increases in the level of capital which the Society is required to hold and could cause it to incur additional costs in order to ensure implementation of, and continued compliance with, the evolving regimes. This could have a material adverse effect on its profitability or results of operations of the Society and could hinder its growth.

RWA floors and IRB modelling

The Basel Committee published their final reforms to the Basel III framework in December 2017. The amendments include changes to the standardised approaches for credit and operational risks and the introduction of a new RWA output floor. The rules are subject to a transitional period from 2022 to 2027. On 2 August 2019, the EBA published its policy advice on (amongst other things) the Basel III output floor. The EBA recommended that:

- the output floor, at the 72.5 per cent. level set in the Basel agreement, should be implemented by EU institutions;
- the floored RWAs should be used as the basis across RWA-based capital requirements (including the minimum capital requirement, Pillar 2 requirements and buffer requirements) and at all levels of a banking group (including group consolidated, sub-consolidated and individual level);
- the implementation of the output floor should follow the five-year transitional path from 2022 as set out in the Basel III agreement, including the transitional cap of a 25 per cent. increase in RWA; and
- the legislation implementing these changes to the Basel III framework should clarify that the principal loss absorption trigger in additional tier 1 instruments (which would include the Conversion Trigger in the terms of the Securities) should be based on floored ratios (i.e. the common equity tier 1 ratio(s) based on the floored RWAs).

In the event of the UK's departure from the EU, the application of the output floor in the United Kingdom will be a matter for the UK legislature and Society's prudential regulators.

In addition, in June 2017, the PRA published a policy statement relating to residential mortgage risk-weights, including proposals to align firms' IRB modelling approaches for residential mortgage risk-weighted assets. This sets 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.

These reforms represent a re-calibration of regulatory requirements with no underlying change in the capital resources the Society holds or the risk profile of its assets. The final impacts are subject to uncertainty for future balance sheet size and mix, and the final detail of some elements of the regulatory changes remain at the PRA's discretion. However, the introduction of these RWA floors and IRB calibration changes will lead to a significant increase in the Society's risk weights over time and it currently expects the consequential impact on its reported CET1 ratio ultimately to be a reduction of approximately 45-50 per cent. relative to its current methodology. However, organic earnings through the transition are expected to mitigate the impact such that the Society's reported CET1 ratio will in practice remain well in excess of the *pro forma* levels imposed by these changes, and the Society expects that leverage requirements will remain the Society's binding capital constraint based on its latest projections. Whilst the Society currently expects that the leverage ratio will continue to be its binding capital constraint in the near-term, it is possible that these changes will, over time, result in risk-weighted capital requirements becoming the binding constraint.

MREL and resolution strategy

MREL requirements are being introduced as part of a regime designed to make it easier to manage the failure of banks and building societies in an orderly way, without reliance on taxpayer bail-outs. These rules require all institutions to meet an individual MREL requirement by holding capital instruments and other 'eligible liabilities' which are available to be bailed-in (i.e. written down or converted to equity), calculated as a percentage of total liabilities and own funds and set by the relevant resolution authorities.

The Bank of England has set the Society an indicative MREL requirement of 6.5 per cent of its UK leverage exposure from January 2020. MREL requirements are split into two elements: firstly, a loss absorption

amount, to cover losses up to and in resolution, based on a firm's minimum going concern capital requirement; and secondly, a recapitalisation amount, intended to enable the firm to continue as a going concern post-resolution and to access funds in the capital markets (and accordingly the recapitalisation amount is likely to be at least equal to the minimum going concern capital requirement).

In addition to its MREL requirement, the Society must also hold applicable leverage ratio buffers expected to be 0.75 per cent of its UK leverage exposure. Together the MREL requirement and applicable buffers represent the Society's "loss-absorbing capacity". As at 30 June 2019, the Society's MREL resources were equal to 7.9 per cent of the UK leverage ratio exposure. The FPC has committed to reviewing the UK leverage ratio framework on which the Society's MREL requirement is based. If this review were to result in an increase in the minimum or leverage ratio buffer requirement this could result in an increase in the Society's required loss absorbing capacity.

The preferred resolution strategy for the Society has been set by the BoE as "bail-in", reflecting the size of the Society and consequential risks of an insolvency process. 'Bail-in' would involve the write down or conversion to equity instruments (such as CCDS) of liabilities of the Society, and would be expected to result in the write down or conversion of all or a large part of the Society's own funds (including the Securities) and other eligible liabilities (and could in addition result in the write down or conversion of other, more senior-ranking liabilities of the Society). Notwithstanding this, the actual approach taken, should the Society require resolution, will depend on the circumstances at the time of a failure, and all available options would be considered by the BoE.

Banking Reform Package

As noted above, the Banking Reform Package was finalised and published in the Official Journal of the EU on 7 June 2019 and entered into force 20 days thereafter. Most of the reforms in the Banking Reform Package must be implemented in Member States by either December 2020 or June 2021. The Banking Reform Package includes some of the legislation included in the Financial Services (Implementation of Legislation) Bill (the "**Bill**") which received its first reading in the House of Lords on 22 November 2018. Should the Bill become law following Brexit, it will provide the UK Government with the power to choose to implement new EU laws, or parts of those laws, which are both appropriate and beneficial for the UK and adjust and improve the legislation as it is brought into UK law to ensure that it works better for UK markets. The Bill was due to have its report stage and third reading in the House of Commons on 4 March 2019 but this has now been postponed for a date to be announced.

Stress Tests

Since 2014, the BoE has conducted annual stress tests of the UK banking system. The annual cyclical scenario includes all major UK banks and building societies with total retail deposits equal to, or greater than, £50 billion on an individual or consolidated basis, at a firm's financial year-end date. This group includes the Society. The findings from the 2018 stress test (which the FPC stated was sufficiently severe to encompass the outcomes based on worst-case assumptions about the challenges the UK economy could face in the event of a cliff-edge Brexit) showed that the Society would remain profitable, with capital levels well above regulatory requirements (common equity tier 1 capital falling to 14.1 per cent. at its lowest point - 6.20 per cent. above the hurdle rate – and UK leverage ratio falling to 5.1 per cent. at its lowest point), with full distributions continuing to be made on all Tier 1 capital instruments. However, there is an ongoing risk that the Society may fail the annual stress test (which would have the effect of damaging the Society's reputation and other associated adverse consequences) and be subject to future regulatory developments to the BoE's stress testing framework which could lead to, amongst others, a requirement to raise further capital. The results of the 2019 annual stress tests are expected to be published in the fourth quarter of 2019, along with the BoE's 2019 Financial Stability Report. In addition, the EBA has conducted its own stress tests for certain European financial institutions. Although the Society has not to date been involved in the EBA's stress tests, and the EBA is currently not anticipating including UK institutions in its 2020 stress tests (contingent upon Brexit), if it were to be included in the future, as with the BoE'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.

A failure adequately to manage capital, liquidity and MREL requirements could have a material adverse effect on the Society

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

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

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

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

The FSMA established the FSCS, which pays compensation to eligible customers of authorised financial services firms which are unable, or are likely to be unable, to pay claims against them. Based on its share of protected deposits, the Society paid levies to the FSCS to enable the scheme to meet claims against it.

In common with other financial institutions which are subject to the FSCS, the Society 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 years ended 4 April 2015 and 4 April 2016.

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 Society. Any such increases in the Society's costs and liabilities related to the levy may have a material adverse effect on its results of operations. Further costs and risks may also arise from discussions at governmental levels around the future design of financial services compensation schemes, such as increasing the scope and level of protection and moving to pre-funding of compensation schemes.

In April 2014, the new EU directive on deposit guarantee schemes (the "**DGSD**") was adopted and EU Member States were required to implement it into national law on or before 3 July 2015. The DGSD requires EU Member States to ensure that by 3 July 2024 the available financial means of the deposit guarantee schemes regulated by it reach a minimum target level of 0.8 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 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, it will have access to alternative funding arrangements such as loans from public or private third parties. HM Treasury and the PRA have brought into force final requirements on the UK implementation of the DGSD. These requirements provide, among other things, that the ex-ante contributions are met by funds already collected under the UK bank levy (with the ability, in the case of insufficient funds, to collect immediate ex-post contributions) and changes to the FSCS including the introduction of temporary high balance deposit protection, up to £1 million, for up to six months from when the amount was deposited for certain limited types of deposits and changes to the types of depositors that are eligible for compensation. It is possible, as a result of the DGSD and UK requirements, that future FSCS levies on the Society may differ from those it has incurred historically, and that such reforms could result in the Society incurring additional costs and liabilities, which may adversely affect its business, financial conditions and/or results of operations.

FACTORS WHICH ARE MATERIAL FOR THE PURPOSE OF ASSESSING THE RISKS ASSOCIATED WITH THE SECURITIES

In making an investment decision, potential investors should carefully consider the risks of an investment in the Securities. In particular, potential investors should be aware of the following:

Any actual or anticipated exercise of resolution powers in connection with the Society, the Securities and/or any CCDS issued upon conversion of the Securities could materially adversely affect the rights of holders of the Securities and/or any such CCDS and/or the market price of the Securities and/or any such CCDS

As described under "*The Society is subject to wide-ranging regulatory action in the event that it is considered likely to fail and its failure poses a threat to the public interest*" above, the UK resolution Authorities have substantial powers under the Banking Act to resolve a failing financial institution.

The exercise of any SRR powers in respect of the Society could impact the Society's financial condition and prospects and its ability to satisfy its obligations in respect of the Securities and/or any CCDS issued upon conversion of the Securities. For example, such exercise could result in the Society being required, or electing, to reduce or cancel interest payments in respect of the Securities for a significant period of time, and may impact the Society's ability or willingness to exercise any right to repay the Securities available to it.

In addition, a number of the resolution powers, including under the bail-in tool and/or the capital write-down tool, could be used directly in respect of the Securities and/or any CCDS issued upon conversion of the Securities, which could materially adversely affect the rights of holders in respect of Securities (including, potentially, removing all such rights entirely) and/or affect the liquidity, market price and volatility of any trading in such Securities.

Exercise of these powers could involve taking various actions in relation to the Securities and/or any CCDS issued upon conversion of the Securities, including (among other things):

- transferring the Securities and/or any such CCDS out of the hands of the holders;
- de-listing the Securities and/or the CCDS;
- writing down (which may be to nil) the Securities and/or the CCDS or converting the Securities into CCDS or converting the Securities and/or any CCDS into another form or class of securities; and/or
- modifying or disapplying certain terms of the Securities and/or the CCDS, which could include modifications to (without limitation) the interest provisions (including reducing the amount of interest potentially 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 any redemption provisions (including the timing of any redemption options and/or the amount payable upon redemption).

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 holders of the Securities) 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, although this may not apply in relation to an application of the write-down and conversion power in circumstances where a stabilisation power is not also used; holders of debt instruments which are subject to the power may, however, have ordinary shares transferred to or issued to them by way of compensation). Accordingly, the deeply subordinated ranking of the Securities, and the even more deeply subordinated ranking of CCDS, in insolvency, can be expected to have a direct impact on the relative losses imposed on holders in respect of their Securities or, as the case may be, CCDS in a resolution. Such holders would be expected to suffer losses before all or most other investors in the Society, and may lose their entire investment before all or most other investors in the Society suffer any losses.

Accordingly, any use of any stabilisation powers may have an adverse effect on the Society's ability to perform its obligations in respect of the Securities and/or any CCDS issued upon conversion of the Securities, and any actual or anticipated use of any stabilisation powers and/or the capital write-down tool in respect of the Society, the Securities and/or the CCDS (if issued) may severely adversely impact the market price of the Securities and/or CCDS and/or may materially adversely affect the rights of the holders in respect of the Securities and/or CCDS. Furthermore, the threat of resolution powers being used may affect trading behaviour, including prices and volatility, and, as a result, the Securities and any CCDS, if issued, are not necessarily expected to follow the trading behaviour associated with other types of securities.

Whilst Securityholders adversely affected by the exercise of powers under the SRR may, in certain circumstances, be eligible for compensation determined in accordance with provisions established by or under the Banking Act, there can be no assurance that holders of the Securities or any CCDS would be entitled to receive any compensation, or that any such compensation received would be equal to any loss actually incurred.

Upon the occurrence of a Conversion Trigger, the Securityholders will lose their investment in the Securities and any CCDS they receive may not be of the same value as their original investment in the Securities

Investors may lose all or part of their investment in the Securities if the Common Equity Tier 1 ratio of the Society calculated on an individual consolidated basis (as referred to in Article 9 of the Capital Requirements Regulation or any equivalent or similar law, rule or provision of the Capital Regulations, in each case to the extent then applicable to the Society) or the Common Equity Tier 1 ratio of the Society calculated on a consolidated basis (each such ratio, a "**CET1 Ratio**") falls below 7.00 per cent. (a "**Conversion Trigger**"), as further described in Condition 8. Upon the occurrence of a Conversion Trigger, the Society shall: (a) cancel any interest which has accrued and remains unpaid up to (and including) the relevant Conversion Date (whether or not such interest has become due for payment); (b) irrevocably (without the need for the consent of Securityholders) write down the Securities by reducing the nominal amount of each Security to zero; and (c) issue to each Securityholder such number of CCDS as is equal to the aggregate nominal amount of that Securityholder's Securities divided by the Conversion Price.

A Conversion shall be deemed to be effective with effect from the relevant Conversion Date stated in the Conversion Notice to be given by the Society and without the requirement for any further formality. Once the nominal amount of a Security has been written down, the nominal amount of such Security will not be restored in any circumstances (including where the relevant Conversion Trigger ceases to continue), the Security will be cancelled and no further interest will accrue or be payable on such Security at any time thereafter. Any interest which is accrued and unpaid to the date of the relevant Conversion Trigger shall be

immediately cancelled (whether or not such interest has become due for payment). A Securityholder will not be entitled to (i) receive, other than the relevant number of CCDS as is equal to the aggregate nominal amount of that holder's Securities divided by the Conversion Price, any shares or other participation rights in the Society or be entitled to any other participation in the upside potential of any equity or debt securities issued by the Society or any other member of the Group or (ii) any subsequent re-transfer or any other compensation in the event of any change in either CET1 Ratio.

The occurrence of a Conversion Trigger is inherently unpredictable and depends on a number of factors, which may be outside the control of the Society. Furthermore, a determination that a Conversion Trigger has occurred can be made on any information available to the Society, whether or not publicly disclosed. Accordingly, investors may be unable to predict if and when a Conversion Trigger may occur. See "*The circumstances surrounding or triggering a Conversion are unpredictable, and there are a number of factors that could affect either CET1 Ratio*" and "*The two CET1 Ratios may be affected by different factors*" below.

Further, the Conditions provide that the Securityholders, and not the Society, shall be responsible for paying any taxes and capital, stamp, issue, registration and transfer taxes and duties arising on Conversion as a consequence of any disposal or deemed disposal of their Securities (or any interest therein) and/or the issue or delivery to them of any CCDS (or any interest therein) upon Conversion.

In addition to Conversion of the Securities in accordance with Condition 8, the Securities may also be written off, written down, converted to CCDS or otherwise modified in a manner which is materially adverse to investors in circumstances where the BoE or other resolution authorities exercise powers under EU and UK recovery and resolution regimes. See "*Any actual or anticipated exercise of resolution powers in connection with the Society, the Securities and/or any CCDS issued upon conversion of the Securities could materially adversely affect the rights of holders of the Securities and/or any such CCDS and/or the market price of the Securities and/or any such CCDS*" above.

As the Conversion Price is fixed at the time of issue of the Securities, Securityholders will bear the risk of fluctuations in either CET1 Ratio of the Society and the price of the CCDS

The occurrence of the Conversion Trigger is inherently unpredictable and depends on a number of factors, many of which are outside of the Society's control. For example, the occurrence of one or more of the risks described under "*Factors that may affect the Society's ability to fulfil its obligations under the Securities*", or the deterioration of the financial condition of the Society in the circumstances described therein or otherwise, may substantially increase the likelihood of the occurrence of the Conversion Trigger.

Furthermore, the market price and liquidity of the Securities is expected to be affected by fluctuations in either CET1 Ratio of the Society and the market price of the CCDS. Fluctuations in either CET1 Ratio of the Society may be caused by changes in the amount of Common Equity Tier 1 capital and/or Risk Weighted Assets, each calculated on either an individual consolidated basis (as referred to in Article 9 of the Capital Requirements Regulation or any equivalent or similar law, rule or provision of the Capital Regulations, in each case to the extent then applicable to the Society) or a consolidated basis (and whether as a result of changes in the Society's own funds or risk weighted assets or as a result of changes in the manner in which such metrics are required to be calculated under the prudential rules, with or without the application of transitional measures), as well as changes to definitions under the capital adequacy standards, methods of calculating Risk Weighted Assets and guidelines of the relevant authority. Any indication that either CET1 Ratio of the Society is moving towards the level of a Conversion Trigger may have an adverse effect on the market price of the Securities and any trading market for the Securities may be severely limited. In addition, the market price of the Securities may be more sensitive generally to adverse changes in the Society's and the Group's financial condition than the market prices of securities without a similar conversion or write-down feature, and may become increasingly volatile as either CET1 Ratio of the Society falls. The level of the CET1 Ratios of the Society may significantly affect the trading price and liquidity of any trading market in the Securities and also of the CCDS. In addition, any decline in the market price of the CCDS may have an adverse effect on the market price of the Securities. Therefore, investors may not be able to sell their Securities easily or at prices that will provide them with a yield comparable to more conventional

investments. These adverse effects can be expected to become increasingly pronounced as either CET1 Ratio of the Society approaches 7.00 per cent.

In addition, because a Conversion Trigger will only occur at a time when either of the Society's CET1 Ratios has deteriorated significantly, a Conversion Trigger may be accompanied by a deterioration in the market price of the CCDS, which may be expected to continue after the occurrence of the Conversion Trigger. Therefore, following a Conversion Trigger, the realisable value of the CCDS is likely to be significantly below the Conversion Price (and could be nil). The Conversion Price is fixed at the time of issue of the Securities at £100.00, and is subject to only limited anti-dilution adjustments, as described under "*Securityholders have limited anti-dilution protection*" below. As a result, the Conversion Price may not reflect the market price of the CCDS at the time of conversion (or at any other time), and the market price could be significantly lower than the Conversion Price (and could be nil).

In addition, there may be a delay in a holder receiving its CCDS following a Conversion Trigger, during which time the market price of the CCDS may further decline. As a result, the realisable value of the CCDS received upon a Conversion Trigger could be substantially lower than that implied by the price paid for the Securities at the time of their purchase.

The obligations of the Society under the Securities are unsecured and deeply subordinated, and the rights of the holders of CCDS will be further subordinated

The Securities constitute direct, unsecured and deeply subordinated investments in the Society. On a winding-up or dissolution of the Society commencing prior to the Conversion Date (save as otherwise provided in an Excluded Dissolution), claims in respect of the Securities will rank junior to almost all other claims against the Society, except for claims in respect of Parity Obligations (if any) and claims in respect of CCDS and other claims over any residual surplus assets of the Society, all as further provided in Condition 4.2.

The claims of the holders of the Securities in a winding-up or dissolution of the Society (save as otherwise provided in an Excluded Dissolution) which commences prior to any Conversion Date determined in accordance with Condition 8, will be for the nominal amount of their Securities together with accrued but unpaid interest thereon (excluding interest which has been cancelled in accordance with the Conditions) and any damages awarded in respect thereof. However, such claims shall be amongst the most deeply subordinated obligations of the Society as provided above, and Securityholders will only be eligible to recover any amounts in respect of their claims if all claims in respect of more senior-ranking obligations of the Society (which is almost all other obligations of the Society) have first been paid in full. If, on a winding-up or dissolution of the Society which commences prior to any Conversion Date, the assets of the Society are insufficient to enable the Society to repay the claims of more senior-ranking creditors in full, the Securityholders will lose their entire investment in the Securities. If there are sufficient assets to enable the Society to pay the claims of senior-ranking creditors in full but insufficient assets to enable it to pay claims in respect of the Securities and all Parity Obligations in full, Securityholders will lose some (which may be substantially all) of their investment in the Securities.

For the avoidance of doubt, the holders of the Securities shall, in a winding-up or dissolution of the Society which commences prior to any Conversion Date, have no claim in respect of the surplus assets (if any) of the Society remaining in any winding-up or dissolution following payment of all amounts due in respect of the liabilities of the Society.

As described above under "*Upon the occurrence of a Conversion Trigger, the Securityholders will lose their investment in the Securities and any CCDS they receive may not be of the same value as their original investment in the Securities*", the Securities will, in certain circumstances, be irrevocably (without the need for the consent of Securityholders) written-down to zero and converted into CCDS. The claims of CCDS holders in a winding-up or dissolution of the Society are the most junior-ranking of all claims. Claims in respect of CCDS are not for a fixed nominal amount, but rather are limited to a proportionate and capped

share of the surplus assets (if any) remaining following payment of all amounts due in respect of the liabilities of the Society.

Therefore, if a winding-up or dissolution of the Society occurs following the Conversion Date, each Securityholder will be effectively further subordinated from being the holder of a subordinated investment to being the holder of CCDS, will not have a claim for a fixed amount in the winding-up and there is an even greater risk that holders will lose all or some of their investment.

Furthermore, the proportionate (or capped) share of surplus assets (if any) which a CCDS holder would be eligible to receive in a winding-up or dissolution of the Society will depend upon a range of factors, including the number of CCDS in issue, the price at which such CCDS have been issued from time to time and the relative contribution to the common equity tier 1 capital of the Society deemed to have been made by the CCDS holders as a class at the relevant times for determining the rights of CCDS holders to share in any surplus assets. In particular, other issues of CCDS, whether issued before, simultaneously with, or after the CCDS issued upon conversion of the Securities, and whether issued by way of new investment in the Society or upon conversion of other securities, may have a significant dilutive impact on the proportion of surplus assets (if any) which an investor would be eligible to receive in a winding-up or dissolution. If the Society's common equity tier 1 or total tier 1 ratios are eroded over time, the Society may elect, or may be required, to raise further tier 1 capital through issues of CCDS or instruments which convert into CCDS in the same or similar circumstances in which the Securities would convert. In addition, other liabilities of the Group may, in certain circumstances, become subject to bail-in by way of conversion to CCDS (see further "*The Society is subject to wide-ranging regulatory action in the event that it is considered likely to fail and its failure poses a threat to the public interest*" above).

Given the possible variables, it is not possible to predict, as at the date of this Offering Circular, the share of surplus assets (if any) which would be attributable to each CCDS in the event of a winding-up or dissolution of the Society in the future.

The rights of Securityholders will be limited between the occurrence of a Conversion Trigger and the Conversion Date

Although the Society currently expects that beneficial interests in the Securities will be transferrable between the occurrence of a Conversion Trigger and the Conversion Date, there is no guarantee that an active trading market will exist for the Securities following the occurrence of a Conversion Trigger. Accordingly, the price received for the sale of any beneficial interest under a Security during this period may not reflect the market price of such Security or the CCDS.

Furthermore, transfers of beneficial interests in the Securities may be restricted following the occurrence of a Conversion Trigger, for example if the clearance and settlement of transactions in the Securities is suspended by Euroclear and/or Clearstream, Luxembourg at an earlier time than currently expected. In such a situation it may not be possible to transfer beneficial interests in the Securities in such clearing system and trading in the Securities may cease through such clearing system. In addition, Euroclear and Clearstream, Luxembourg will each suspend all clearance and settlement of transactions in the Securities on a specific date (the "**Suspension Date**") to be notified to Securityholders in the Conversion Notice. As a result, holders of the Securities will not be able to settle the transfer of any Securities through Euroclear and/or Clearstream, Luxembourg following the Suspension Date, and any sale or other transfer of the Securities that a holder of the Securities may have initiated prior to the Suspension Date with respect to Euroclear or Clearstream, Luxembourg that is scheduled to match or settle after the Suspension Date will be rejected by such clearing system and will not be matched or settled through such clearing system.

The Securities will cease to be admitted to trading on the ISM after the Suspension Date.

Moreover, although it is the Society's current intention that the Securityholders will become beneficial owners of the CCDS upon the issuance of such CCDS to the Nominee (in its capacity as nominee holder of

the CCDS), no holder will be able to sell or otherwise transfer any CCDS until such time as they are finally delivered to the Euroclear or Clearstream, Luxembourg securities account of such holder.

Upon Conversion, the CCDS will be delivered to the Nominee for and on behalf of Euroclear and Clearstream, Luxembourg

While the Securities and the CCDS are each represented by global certificates registered in the name of the Nominee, upon Conversion the aggregate number of CCDS to be issued pursuant to the Conditions are expected to be issued directly to the Nominee for and on behalf of Euroclear and Clearstream, Luxembourg. Investors holding beneficial interests in the Securities through Euroclear and/or Clearstream, Luxembourg accounts are entitled to receive beneficial interests only in the CCDS and will only be entitled to the rights in respect of such beneficial interests in CCDS as prescribed by the rules of Euroclear and/or Clearstream, Luxembourg, as the case may be. Registration of book-entry interests in the CCDS will be effected through the records of Euroclear and Clearstream, Luxembourg and their respective participants in accordance with the rules and procedures of Euroclear and Clearstream, Luxembourg and their respective direct and indirect participants. There is no guarantee that such book-entry interests will be registered within any specific time period or that such method of issuance of CCDS will be most appropriate process at any given time.

Interest Payments may be cancelled on a discretionary or mandatory basis

Payment of interest on any Interest Payment Date is at the sole discretion of the Society. The Society may elect not to pay interest, in whole or in part, on any Interest Payment Date. The Society may make such election for any reason. If the Society does not pay any Interest Payment (or any part thereof) on any Interest Payment Date, such non-payment shall evidence the Society's exercise of discretion (or a mandatory requirement) to cancel such Interest Payment (or the relevant part thereof), and such Interest Payment (or the cancelled part thereof) shall not become due and payable at any time.

Additionally, the PRA has the power to direct the Society to reduce or cancel payments of interest on the Securities. The Society anticipates that the risk of any such intervention by the PRA is most likely to materialise if at any time the Society is failing, or is considered likely to fail, to meet its capital requirements – see also "*The Society is subject to regulatory capital and liquidity requirements which may change*" above. Any interest not paid will be cancelled, and Securityholders will have no right to receive such cancelled interest (or any amount in respect thereof) in any circumstances.

In addition, payment of interest will be prohibited if and to the extent that (i) payment cannot be made in compliance with the Solvency Test, (ii) the Society has insufficient Distributable Items, (iii) payment would result in a breach of any maximum distributable amount then applicable to the Society and/or (iv) following the occurrence of a Conversion Trigger, each as further described below. The Society will also exercise its discretion, or otherwise may be required, to cancel interest payments (in whole or in part) on the Securities in any other circumstances in which the Capital Regulations or any other applicable laws or regulations in effect from time to time (or where its regulator or an applicable resolution authority acting pursuant to such Capital Regulations or other laws or regulations) require interest payments on securities such as the Securities to be so cancelled (including, but not limited to, if the Society becomes subject to any applicable leverage-based or MREL-based maximum distributable amount restrictions, as further described below).

Solvency Test

The Conditions provide that no payment of principal, interest or any other amount in respect of the Securities shall become due and payable unless, and to the extent that, the Society is able to make such payment and still be solvent immediately thereafter (except in the winding-up or administration of the Society) (the "**Solvency Test**"). For these purposes, the Society shall be considered to be solvent if (x) it is able to pay its debts which are Senior Obligations as they fall due and (y) its Assets exceed its Liabilities.

If and to the extent that, on any Interest Payment Date, the Society is unable to make an Interest Payment and still be solvent immediately thereafter, such Interest Payment shall not become due and will be cancelled.

Insufficient Distributable Items

Payments of interest due on any Interest Payment Date will be prohibited and will not be paid if and to the extent that the amount of such Interest Payment (together with any Additional Amounts payable thereon pursuant to Condition 10) otherwise due, together with any interest payments or distributions which have been paid or made or which are required to be paid or made during the then current Financial Year (as defined in Condition 19) on other own funds items (excluding any such interest payments or distributions which (i) are not required to be made out of Distributable Items or (ii) have already been provided for, by way of deduction, in the calculation of Distributable Items) shall, in aggregate, exceed the amount of Distributable Items (as defined in Condition 19) of the Society as at such Interest Payment Date. See further "*The level of the Society's Distributable Items is affected by a number of factors and insufficient Distributable Items may restrict the Society's ability to make interest payments on the Securities*" below.

Maximum Distributable Amounts

The Society shall not be permitted to pay any Interest Payment otherwise due on an Interest Payment Date if and to the extent that the payment of such Interest Payment (together with any Additional Amounts payable thereon) would cause, when aggregated together with other distributions of the kind referred to in Article 141(2) of the Capital Requirements Directive (or any provision of applicable law transposing or implementing Article 141(2) of the Capital Requirements Directive, as amended or replaced, or any equivalent or similar law, rule or provision of the Capital Regulations, in each case to the extent then applicable to the Society), the Maximum Distributable Amount (if any) then applicable to the Society (as calculated in accordance with Article 141 or any applicable law transposing or implementing that Article, or any equivalent or similar law, rule or provision of the Capital Regulations which requires a maximum distributable amount to be calculated or if the Society is failing to meet any capital adequacy requirement, in each case to the extent then applicable to the Society) to be exceeded.

The Banking Reform Package extends the scope of the 'maximum distributable amount' restrictions, with the original restrictions based on risk-wighted capital requirements being extended to include also restrictions based on leverage requirements for certain institutions and restrictions based on MREL requirements. The Society would expect to exercise its discretion, and in any event may be required, to cancel scheduled payments of interest in respect of the Securities, in whole or in part, as may be necessary to comply with such restrictions (if any) as may apply to the Society from time to time. See further "*The Capital Regulations provide for capital requirements that are in addition to the minimum capital requirement. These additional capital requirements will restrict the Society from making interest payments on the Securities in certain circumstances, in which case the Society will automatically cancel such interest payments*" below.

Conversion Trigger

Upon the occurrence of a Conversion Trigger, the Society will cancel any interest which has accrued and remains unpaid up to (and including) the relevant Conversion Date, whether or not such interest has become due for payment. See further "*Upon the occurrence of a Conversion Trigger, the Securityholders will lose their investment in the Securities and any CCDS they receive may not be of the same value as their original investment in the Securities*" above.

Consequences of cancellation

Any interest payment (or part thereof) cancelled and not paid on any relevant Interest Payment Date or repayment date by reason of any of Conditions 4.4, 6 or 8 shall be cancelled and shall not accumulate or be payable at any time thereafter, and Securityholders will have no claim for any amount in respect of interest not paid in such circumstances and no right to receive any additional interest or compensation as a result of such non-payment. Non-payment of any Interest Payment (or part thereof) will not constitute an event of default by the Society for any purpose, and the Securityholders shall have no right thereto whether in a winding-up or dissolution of the Society or otherwise. Thus, any Interest Payment not paid as a result of the

Society's election to cancel interest or as a result of the mandatory restrictions described above will be lost and the Society will have no obligation to make payment of such interest or to pay interest thereon.

The Society's distribution policy in respect of its CCDS provides that in determining the interim or final distributions (if any) to be declared in respect of the CCDS in respect of any given financial year, the Society will have regard to all relevant factors which it considers to be appropriate, including the profitability of the Society, its resources available for distribution and the capital and liquidity position of the Society at the time of declaring the distribution. The Securities are senior in ranking to CCDS. It is the Society's current intention that, whenever exercising its discretion to declare distributions in respect of the CCDS, or its discretion to cancel interest on the Securities, the Society will take into account the relative ranking of these instruments in its capital structure. However, the Society may at any time depart from this policy at its sole discretion.

If the Society elects to cancel, or is prohibited from paying, interest on the Securities at any time, there is no restriction (other than any restriction imposed by any applicable law or regulation) on the Society from otherwise making distributions or any other payments to the holders of the CCDS or any other securities of the Society, including securities ranking *pari passu* with or junior to the Securities.

If at any time the Securities are Converted in accordance with the Conditions, no interest shall accrue from that time on the Securities. Consequently, no interest will be payable after the Conversion of the Securities.

Any actual or anticipated cancellation or reduction of interest payments can be expected to have a significant adverse effect on the market price of the Securities and any trading market for the Securities could be severely restricted. In addition, as a result of the interest cancellation and reduction provisions of the Securities, the market price of the Securities may be more volatile than the market prices of other debt securities on which interest accrues that are not subject to such cancellation or reduction and may be more sensitive generally to adverse changes in the Society's financial condition.

The level of the Society's Distributable Items is affected by a number of factors and insufficient Distributable Items may restrict the Society's ability to make interest payments on the Securities

The level of the Society's Distributable Items is affected by a number of factors. The Society's future Distributable Items, and therefore its ability to make interest payments under the Securities, are a function of its existing Distributable Items and its future profitability. In addition, the Society's Distributable Items may also be adversely affected by the servicing of more senior instruments.

The level of the Society's Distributable Items may be affected by changes to regulation or the requirements and expectations of applicable regulatory authorities. Any such potential changes could adversely affect the Society's Distributable Items in the future.

Further, the Society's Distributable Items, and therefore its ability to make interest payments under the Securities, may be adversely affected by the performance of its business in general, factors affecting its financial position (including capital and leverage), the economic environment in which the Group operates and other factors outside of the Society's control. In addition, adjustments to earnings, as determined by the Board, may fluctuate significantly and may materially adversely affect Distributable Items.

The Society shall not make an interest payment on the Securities on any Interest Payment Date or repayment date (and such Interest Payment shall therefore be cancelled) if the level of Distributable Items is insufficient to fund that payment, as discussed in the risk factor "*Interest Payments may be cancelled on a discretionary or mandatory basis*" above and as provided in Condition 6.2.

The Capital Regulations provide for capital requirements that are in addition to the minimum capital requirement. These additional capital requirements will restrict the Society from making interest payments on the Securities in certain circumstances, in which case the Society will automatically cancel such interest payments

As provided above under "*The Society is subject to regulatory capital and liquidity requirements which may change*", the Group is subject to regulatory capital requirements comprising a Pillar 1 requirement, a Pillar 2A requirement, a Pillar 2B requirement and additional buffer requirements.

Under Article 141 (*Restrictions on distributions*) of the Directive that is part of CRD IV, as implemented in the United Kingdom (or any equivalent or similar rule as may be applicable to the Society under the Capital Regulations in the future) if the Society fails to meet its combined buffer requirement (broadly, the combination of the capital conservation buffer (set at 2.5 per cent. of risk-weighted assets from 2019), the institution-specific countercyclical buffer and, if applicable (depending on the institution), the systemic risk buffer, the global systemically important institutions buffer and the other systemically important institution buffer, in each case as applicable to the institution), it will be subject to restricted "discretionary payments" (which are defined broadly as payments relating to Common Equity and Additional Tier 1 instruments (including the Securities) and variable remuneration).

The restrictions will be scaled according to the extent of the breach of the combined buffer requirement and calculated as a percentage of the profits of the Society since the last decision to distribute profits or make such discretionary payments. Such calculation will result in a "maximum distributable amount" ("**MDA**") in each relevant period. Scaling will be achieved by applying a scaling factor to the relevant distributable profits (such factor being 0 in the bottom quartile, 0.2 in the second quartile, 0.4 in the third quartile and 0.6 in the fourth quartile). As such, in the bottom quartile, no "discretionary distributions" will be permitted to be paid. As a consequence, in the event of breach by the Society of its combined buffer requirement, it may be necessary to reduce payments on the Securities through the cancellation of scheduled interest payments (in whole or in part).

As at 30 June 2019, the Society held Common Equity Tier 1 capital in excess of its total tier 1 and combined buffer requirement equal to £5,751 million, or 17.1 per cent. of risk weighted assets. For illustrative purposes, had the additional one per cent. systemic risk buffer, introduced with effect from 1 August 2019, been in effect as at 30 June 2019, the Society's Common Equity Tier 1 capital as at 30 June 2019 would have been £5,414 million, or 16.1 per cent. of risk weighted assets, in excess of its total tier 1 and combined buffer requirement. The Society currently intends to maintain an internal management buffer comprising Common Equity Tier 1 capital over the combined buffer requirement. There can be no assurance, however, that the Society will continue to maintain such internal management buffer or that any such buffer would be sufficient to protect against a breach of the combined buffer requirement resulting in restrictions on payments on the Securities. See further "*The Society is subject to regulatory capital and liquidity requirements which may change*" and "*Interest Payments may be cancelled on a discretionary or mandatory basis – Maximum Distributable Amount*" above. In addition, the Banking Reform Package extends the scope of the MDA restrictions to also reflect leverage-based capital requirements for certain institutions, and MREL requirements, as further described below.

The Society is also subject to the countercyclical capital buffer ("**CCyB**") requirement, which is calculated based on the relevant exposures held in jurisdictions in which a buffer rate has been set. The Society's exposures are almost entirely based in the UK, and accordingly its applicable CCyB for all its exposures closely aligns to the UK CCyB rate. As at the date of this Offering Circular, the UK CCyB rate set by the FPC is 1.0 per cent. of risk weighted assets (which took effect from 28 November 2018). The FPC reviews this rate quarterly, and may elect to increase or decrease this rate at any time. Generally, any increase in the CCyB rate will take effect one year after the decision to increase it, in order to give institutions time to raise the necessary additional capital if required. A decrease may take effect immediately. In the July 2019 Financial Stability report the FPC stated it is maintaining the UK CCyB at 1.0 per cent.

The Common Equity Tier 1 capital used to satisfy the combined buffer requirement cannot also be used to satisfy the Society's Pillar 1 requirement or Pillar 2A requirement, which must be met in full before Common Equity Tier 1 capital can be applied to meeting the combined buffer requirement. Accordingly, to the extent that any increases in the Society's Pillar 2A requirements are, or are required to be, met with Common Equity Tier 1 capital, the amount of Common Equity Tier 1 capital available to meet the combined buffer requirement may be reduced.

The Society's combined Pillar 1 requirement and Pillar 2A requirement as at 4 April 2019 was 15.4 per cent. of risk weighted assets, or £5,022 million (4 April 2018: 15.0 per cent., or £4,887 million), of which at least 8.7 per cent. of risk weighted assets, or £2,819 million, must be held in the form of Common Equity Tier 1 capital.

In addition to its Pillar 1 and 2A requirements the Society has a combined buffer requirement which can only be held in the form of Common Equity Tier 1 capital. As at 4 April 2019 the applicable combined buffer requirement was 3.5 per cent. of risk weighted assets, or £1,138 million, resulting in a total own funds requirement of £6,160 million, of which £3,957 million must be held as Common Equity Tier 1 capital. For illustrative purposes only, had the additional one per cent. systemic risk buffer, introduced with effect from 1 August 2019, been in effect as at 4 April 2019, and all else being equal, the applicable combined buffer requirement would have been 4.5 per cent. of risk weighted assets, or £1,463 million, resulting in a total own funds requirement of £6,485 million of which £4,282 million would have been required to be held as Common Equity Tier 1 capital.

Since the Regulator may increase or decrease the Society's Pillar 2A requirement at any time, and the Society must meet any increased requirement in full before it can apply its available Common Equity Tier 1 capital to meeting its combined buffer requirements, investors in the Securities may not be able to assess or predict accurately the proximity of the risk of interest payments being prohibited from time to time as a result of the application of an MDA restriction under the Capital Regulations.

As noted above, the Banking Reform Package extends the scope of the MDA restrictions, with the original restrictions based on risk-weighted capital requirements being extended also to include restrictions based on leverage requirements for certain institutions and restrictions based on MREL requirements. The Banking Reform Package provides for the following:

(i) *leverage-based MDA*: an institution that is designated as a GSII that: (A) meets an applicable leverage ratio buffer shall not be entitled to make any distribution in connection with tier 1 capital to the extent this would decrease its tier 1 capital to a level where the leverage ratio buffer requirement is no longer met; and (B) is failing to meet an applicable leverage ratio buffer shall calculate a leverage ratio-based maximum distributable amount (the "**L-MDA**") and must not make discretionary payments (payments relating to Common Equity Tier 1 capital instruments, Additional Tier 1 instruments (such as the Securities) and variable remuneration) which would, in aggregate, exceed such L-MDA. As with the MDA, the L-MDA restrictions will be scaled according to the extent of the breach of the leverage buffer requirement and calculated by reference to the institution's distributable profits, applying a scaling factor depending on which quartile of the leverage buffer requirement the institution meets (such factor being 0 in the bottom quartile, 0.2 in the second quartile, 0.4 in the third quartile and 0.6 in the fourth quartile); and

(ii) *MREL-based MDA*: where an institution is failing to meet its buffer requirements as a result of its MREL requirement (but would meet its buffer requirements but for its MREL requirement), the relevant resolution authority, having considered certain specified factors, will be entitled (and, if non-compliance continues for an extended period, may, subject to certain exceptions, be required) to prohibit such institution from distributing more than a maximum distributable amount determined by reference to its MREL requirement (the "**M-MDA**") by way of discretionary payments (payments relating to Common Equity Tier 1 capital instruments, Additional Tier 1 instruments (such as the Securities) and variable remuneration. As with the MDA and the L-MDA, the M-MDA restrictions will be scaled according to the extent of the breach of the buffer requirement (when having regard to

MREL requirements) and calculated by reference to the institution's distributable profits, applying a scaling factor depending on which quartile of the buffer requirement the institution meets (such factor being 0 in the bottom quartile, 0.2 in the second quartile, 0.4 in the third quartile and 0.6 in the fourth quartile).

Whilst the Society is not presently designated as a GSII (and does not expect to be so designated in the foreseeable future), it is possible that L-MDA restrictions could be extended to other systemically important institutions over time, which may include the Society.

The Society would expect to exercise its discretion to cancel scheduled payments of interest in respect of the Securities, in whole or in part, as may be necessary to comply with such any applicable such restrictions in the future and/or with any requirement by the Bank of England, the PRA or any other supervisory authority having jurisdiction over it to cancel any such payment. Furthermore, as noted above, the Society expects that leverage-based requirements will continue to operate as its primary capital constraint in the near term. If the Society were to become subject to L-MDA restrictions, it may be constrained from making discretionary payments – including payments of interest in respect of the Securities – under an applicable L-MDA before it would be constrained under a risk-based MDA. Furthermore, if the Society is subject to an applicable M-MDA and the Bank of England or other resolution authority were to require the Society to reduce or cancel discretionary payments as a result, the Society may be required to use its discretion to cancel interest payments in circumstances where there is no applicable MDA or L-MDA.

The Society's capital requirements are, by their nature, calculated by reference to a number of factors, any one of which or combination of which may not be easily observable or capable of calculation by investors. As a result of the foregoing, the Society may become subject to a maximum distributable amount restriction requiring it to reduce or cancel interest payments in respect of the Securities at any time, and investors in the Securities may not be able easily to observe or predict the circumstances in which such restrictions may arise. Any actual or anticipated restriction on the Society's ability to make interest payments on the Securities in full may materially adversely affect the market price (if any) for the Securities and/or may increase the volatility of any market price for the Securities.

Securityholders may be subject to disclosure obligations and/or may need approval from the Society's regulator under certain circumstances

As the holders of the Securities may receive CCDS if a Conversion Trigger occurs, an investment in the Securities may result in holders having to comply with certain disclosure and/or regulatory approval requirements pursuant to applicable laws and regulations, and/or under the terms of issue of the CCDS, following a Conversion. Non-compliance with such disclosure and/or approval requirements may lead to the incurrence of substantial fines or other criminal and/or civil penalties. Accordingly, each potential investor should consult its legal advisers as to the terms of the Securities, in respect of its existing holding and the level of holding it would have if it receives CCDS following a Conversion Trigger.

Securityholders will bear the risk of changes in the market price of the Securities due to changes in either CET1 Ratio

The market price of the Securities is expected to be affected by changes in either CET1 Ratio of the Society. Changes in the CET1 Ratio calculated on either an individual consolidated basis (as referred to in Article 9 of the Capital Requirements Regulation or any equivalent or similar law, rule or provision of the Capital Regulations, in each case to the extent then applicable to the Society) or a consolidated basis may be caused by changes in the amount of Common Equity Tier 1 capital and/or Risk Weighted Assets, as well as changes to their respective definition and interpretation under the Capital Regulations. See "*The circumstances surrounding or triggering a Conversion are unpredictable, and there are a number of factors that could affect either CET1 Ratio*" and "*The two CET1 Ratios may be affected by different factors*" below.

Furthermore, as further described in Condition 8.11, as the Capital Regulations continue to evolve, there may be a range of transitional (also known as grandfathering) provisions which are relevant to the calculation of

Common Equity Tier 1 Capital and/or Risk Weighted Assets in the determination of each CET1 Ratio. In the context of calculating its capital ratios, the Society may from time to time be required by its Regulator to apply or, conversely, to disregard certain transitional provisions, and/or the Society may have discretion from time to time whether to apply or to disregard certain transitional provisions. Where a CET1 Ratio is calculated without applying available transitional measures (known as a 'fully-loaded' or 'end-point' capital ratio), the CET1 Ratio will be lower than would otherwise be the case were transitional measures applied. Any requirement or discretion to apply or disregard certain transitional provisions could be subject to change without notice. Accordingly, Securityholders may be unable to predict accurately the impact of any such transitional provisions on each CET1 Ratio for the purposes of determining whether a Conversion Trigger may occur. In addition, it is possible that transitional provisions applied (or disregarded) in calculating the Society's reported common equity tier 1 ratios from time to time are applied (or disregarded) differently when calculating each CET1 Ratio under the Conditions (the latter being the relevant ratios for determining whether or not a Conversion Trigger has occurred).

Whilst the Society currently intends to publicly report, on a quarterly basis, its actual common equity tier 1 ratios and (in case this is different) each CET1 Ratio determined in accordance with Condition 8 of the Securities, in each case on an individual consolidated basis and on a consolidated basis, there can be no assurance that this will continue to be the case (although the Society intends to comply with its obligations under Condition 8.11).

The determination of whether a Conversion Trigger has occurred can be made at any time, and on the basis of any financial information available to the Society (whether or not publicly disclosed). Therefore, there may be no prior warning of adverse changes in either or both CET1 Ratios. However, any indication that either CET1 Ratio is moving towards the level of a Conversion Trigger may have an adverse effect on the market price of the Securities. A decline or perceived decline in either CET1 Ratio of the Society may significantly affect the trading price of the Securities.

The circumstances surrounding or triggering a Conversion are unpredictable, and there are a number of factors that could affect either CET1 Ratio

The occurrence of a Conversion Trigger is inherently unpredictable and depends on a number of factors, which are outside the control of the Society. A Conversion Trigger could occur at any time, and on the basis of any information available to the Society, whether or not published.

Both of the CET1 Ratios can be expected to fluctuate on an ongoing basis. The calculation of such ratios could be affected by one or more factors, including, among other things, changes in the mix of the Group's business, major events affecting its earnings, distributions payments by the Society, regulatory changes (including changes to definitions and calculations of regulatory CET1 Ratios and their components, including Common Equity Tier 1 and Risk Weighted Assets, in each case on either an individual consolidated basis (as referred to in Article 9 of the Capital Requirements Regulation or any equivalent or similar law, rule or provision of the Capital Regulations, in each case to the extent then applicable to the Society) or a consolidated basis) and the Group's ability to manage Risk Weighted Assets in both its ongoing businesses and those which it may seek to exit. In addition, the Group may from time to time have capital resources and risk weighted assets denominated in foreign currencies, and changes in foreign exchange rates will result in changes in the pound sterling equivalent value of foreign currency denominated capital resources and risk weighted assets. As a result, the CET1 Ratios are exposed to foreign currency movements.

The calculation of either CET1 Ratio may also be adversely affected by changes in applicable accounting rules, or by changes to regulatory adjustments which modify the regulatory capital impact of accounting rules. Even if changes in applicable accounting rules, or changes to regulatory adjustments which modify accounting rules, are not yet in force as of the relevant calculation date, the PRA could require the Society to reflect such changes in any particular calculation of either of its CET1 Ratios.

As further described under "*The Society is subject to regulatory capital and liquidity requirements which may change - RWA floors and IRB modelling*" above, the Basel Committee published their final reforms to

the Basel III framework in December 2017, including changes to the standardised approaches for credit and operational risks and the introduction of a new RWA output floor. The EBA, in its policy advice published on 2 August 2019, recommended that the output floor, at the 72.5 per cent. level set in the Basel agreement, should be implemented by EU institutions across RWA-based capital determinations at group consolidated, sub-consolidated and individual level, including for determining principal loss absorption triggers in additional tier 1 instruments (such as the Conversion Trigger in the Securities). The Society expects its CET1 Ratios assessed against these new reporting requirements to show a significant reduction. The introduction of these output floors will not change the Society's risk profile or capital resources, but will remove much of the positive impact of the Society's low risk loan book from the updated capital calculations.

Accordingly, the trading behaviour of the Securities is not necessarily expected to follow the trading behaviour of other types of securities and it will be difficult to predict when, if at all, a Conversion Trigger and subsequent Conversion may occur. Any indication that a Conversion Trigger and subsequent Conversion may occur can be expected to have a material adverse effect on the market price of the Securities.

The two CET1 Ratios may be affected by different factors

The factors that influence the CET1 Ratio of the Society as calculated on an individual consolidated basis may not be the same as the factors that influence the CET1 Ratio as calculated on a consolidated basis. For example, an event that has a negative impact on any of the Society's subsidiaries may have a greater or lesser relative impact on the CET1 Ratio calculated on an individual consolidated basis than on the CET1 Ratio calculated on a consolidated basis, depending on whether or not that subsidiary is included for the purposes of calculating the CET1 Ratio on an individual consolidated basis as well as on a consolidated basis.

Since a Conversion Trigger will occur if either the CET1 Ratio calculated on an individual consolidated basis or on a consolidated basis falls below 7.00 per cent., regardless of whether or not the other CET1 Ratio also falls below that threshold, the additional uncertainties resulting from differences in the factors affecting the two CET1 Ratios may have an adverse impact on the market price or the liquidity of the Securities.

Each CET1 Ratio will be affected by the Group's business decisions and, in making such decisions, the Group's interests may not be aligned with those of the holders of the Securities

As discussed in "*The circumstances surrounding or triggering a Conversion are unpredictable, and there are a number of factors that could affect either CET1 Ratio*" and "*The two CET1 Ratios may be affected by different factors*" above, either CET1 Ratio of the Society could be affected by a number of factors. Each CET1 Ratio will also depend on the Group's decisions relating to its businesses and operations, as well as the management of its capital position. The Group is required to consider the interests of its stakeholders as a whole when taking decisions, including strategic decisions, and the interests of other stakeholders may not aligned with the interests of the holders of the Securities in all circumstances. Such strategic decisions could cause holders of the Securities to lose all or part of the value of their investment in the Securities.

Securityholders have limited anti-dilution protection

The number of CCDS to be issued and delivered on Conversion in respect of each Security will be the nominal amount of the Securities outstanding immediately prior to the Conversion on the Conversion Date divided by the Conversion Price, rounded down to the nearest whole number of CCDS. The initial Conversion Price is £100.00, subject to only limited adjustments in accordance with Condition 8.5. See Condition 8 for the complete provisions regarding the Conversion Price.

The Conversion Price will be adjusted in the event of rights issues (i.e. issues of CCDS in compliance with pre-emption rights afforded to CCDS holders under the terms of the CCDS) or grants of other subscription rights or certain other events which affect the CCDS, but only in the limited situations and to the extent provided in Condition 8.5. There is no requirement that there should be an adjustment for every corporate or other event that may affect the value of the CCDS and the adjustment events that are included are less extensive than those often included in the terms of convertible securities.

Furthermore, the Conditions do not provide for certain undertakings from the Society which are sometimes included in securities that convert into the ordinary shares of an issuer to protect investors in situations where the relevant conversion price adjustment provisions do not operate to compensate for the dilutive effect of certain corporate events or actions on the economic value of the Conversion Price. For example, the Conditions contain neither an undertaking restricting the modification of rights attaching to the CCDS nor an undertaking restricting issues of new capital with preferential rights relative to the CCDS.

Accordingly, corporate events or actions in respect of which no adjustment to the Conversion Price is made may adversely affect the value of the CCDS and therefore the Securities.

In order to comply with increasing regulatory capital requirements imposed by applicable regulations, the Society may need to raise additional capital. Further capital raisings by the Society could result in the dilution of the interests of the Securityholders, subject only to the limited anti-dilution protections referred to above.

The Society is entitled, without the consent of the holders of the Securities, to issue further Securities, Senior Obligations or Parity Obligations at any time

The Society is entitled, without the consent or approval of Securityholders, to issue further Securities that are consolidated and form a single series with the Securities and/or other instruments ranking *pari passu* with, or in priority to, the Securities. An offering of such securities may adversely affect the amounts (if any) which holders of the Securities may be eligible to receive on a winding up or dissolution of the Society, and could have an adverse effect on the market price of the Securities as a whole.

In addition, the terms of the Securities do not contain any prohibition on the Society issuing other securities which are intended to qualify as Additional Tier 1 capital but on terms that such securities would be (i) written down or converted to CCDS at a CET1 Ratio which is lower than either 7.00 per cent. CET1 Ratio at which the Securities are to be converted into CCDS, (ii) converted to CCDS at a conversion price which is lower than the Conversion Price in respect of the Securities and/or (iii) written down or converted to CCDS in part only. Whilst the Society does not currently intend to issue any such Additional Tier 1 capital securities, the issue of any such securities in the future may have a significant adverse effect on the market price of the Securities, and could result in the Securities being converted into CCDS at a time when such other securities are not written down or converted (in whole or in part) and/or whilst other securities are converted to CCDS at a more favourable conversion price.

The Securities are not protected liabilities of the Society and holders of the Securities will not benefit from a Government compensation scheme

The FSCS established under the Financial Services and Markets Act 2000 is the statutory fund of last resort for customers of authorised financial services firms, such as the Society, paying compensation to customers if the Society is unable, or likely to be unable, to pay certain claims (including in respect of deposits and insurance policies) made against it (together, "**Protected Liabilities**").

The Securities are not, however, Protected Liabilities of the Society and, moreover, are not guaranteed or insured by any government, government agency or compensation scheme of the United Kingdom or any other jurisdiction.

Any change in English law or administrative practice that affects the Securities could be prejudicial to the interests of holders of the Securities

The Conditions are based on English law in effect as at the date of this Offering Circular. No assurance can be given as to the impact on the holders of the Securities of any possible judicial decision or change to English law or administrative practice after the date of this Offering Circular.

In particular, such changes could impact the definitions of Common Equity Tier 1 and Risk Weighted Assets, each calculated on either an individual consolidated basis or a consolidated basis, and therefore the calculation of each CET1 Ratio, as described in further detail above. Any change in law that affects the calculation of either CET1 Ratio would also affect the determination of whether a Conversion Trigger may occur. Any such change which impacts the calculation of any of the aforementioned capital measures (or the anticipation of any such change), or any amendments or changes to Article 141 of the Directive or Pillar 2A requirements (or any equivalent or similar law, rule or provision of the Capital Regulations, in each case to the extent then applicable to the Society) can be expected to have an adverse effect on the market value of the Securities or may affect the ability to make any Interest Payment. In addition, any change in law or regulation that would cause a Tax Event or a Regulatory Event (each as defined in Condition 7) may entitle the Society, at its option, to repay all, but not some only, of the Securities.

Legislative and regulatory uncertainty, including uncertainty stemming from the UK's withdrawal from the EU, could affect an investor's ability to accurately value the Securities and, therefore, affect the trading price of the Securities given the extent of any impact on the Securities that one or more regulatory or legislative changes, including those described above, could have. The UK Government's current proposal is that when the UK leaves the EU, it will initially transpose and adopt all applicable EU legislation into national law, but there is currently no guarantee that the UK will ratify this proposal or, if it does, that UK law will remain aligned with EU legislation beyond any initial transition period. As such, UK law may diverge from EU law over time. The Society is not able to predict how UK legislation might develop, and consequently cannot assess the impact changes may have on its business, its ability to make payments under the Securities or to maintain its CET1 Ratios above the Conversion Trigger.

The Securities are perpetual instruments and the Society has no obligation to repay the Securities. As a result, an investor in the Securities should be prepared to hold its Securities for an indefinite period of time. Conversely, the Society, in its sole discretion, may elect to repay the Securities at their nominal amount in certain circumstances, which may affect the market price of the Securities and holders may not be able to reinvest the amounts repaid to achieve a similar return

The Securities constitute permanent non-withdrawable deferred shares (as defined in the Act) in the Society and have no maturity date or fixed redemption date. The Society does not have an obligation to repay the Securities at any time and Securityholders do not have any right to require the Society to repay or purchase the Securities. The terms of the Securities do not provide for any events of default. The Society will have the option to repay the Securities in certain circumstances, as further described below, but any such repayment would be solely in the discretion of the Society, and subject to regulatory approval and compliance with applicable law and regulation at the relevant time. As a result, an investor in the Securities should be prepared to hold its Securities in perpetuity or, if it wishes to exit its investment, may be required to sell its Securities in the secondary markets. There can be no assurance that an investor will be able to sell its Securities in the market, or, if so, that the price of such sale will be equal to or above its initial investment, and the price could be substantially less.

The Society has, subject to obtaining PRA consent and to compliance with the Capital Regulations:

(a) the option to purchase the Securities in the open market or otherwise at any price;

(b) the option to repay the Securities on any day falling in the period commencing on (and including) 20 December 2024 and ending on (and including) the First Reset Date, or on any subsequent Reset Date, in each case at their nominal amount together with accrued but unpaid interest thereon (excluding interest which has been cancelled in accordance with the Conditions); and

(c) the option to repay the Securities at any time upon the occurrence of a Tax Event or a Regulatory Event, in each case at their nominal amount together with accrued but unpaid interest thereon (excluding interest which has been cancelled in accordance with the Conditions).

Any such repayment will be effected solely at the discretion of the Society, and only with regulatory approval and subject to compliance with applicable law and regulation at the relevant time.

If the Securities are repaid, there can be no assurance that Securityholders will be able to reinvest the amounts received upon repayment at a rate that will provide the same rate of return as their investment in the Securities. In addition, the repayment features of the Securities are likely to limit their market value. During any period when the Society has the right to elect to repay the Securities, or if there is a perception in the market that any such right has arisen or may arise, the market value of the Securities will generally not be expected to rise substantially above the price at which they can be repaid.

Holders of the Securities have very limited rights in relation to the enforcement of payment of principal or interest on the Securities

Any Interest Payment (or part thereof) cancelled and not paid on any relevant Interest Payment Date or repayment date shall not accumulate or be payable at any time thereafter. Non-payment of any Interest Payment (or part thereof) which is cancelled in accordance with the Conditions will not constitute an event of default by the Society for any purpose, and the Securityholders shall have no right thereto whether in a winding-up or dissolution of the Society or otherwise. There is no right of acceleration in the case of such non-payment of interest on the Securities or in the performance of any of the Society's other obligations under the Securities.

Subject also to the subordination of the Securities (as described in "*The obligations of the Society under the Securities are unsecured and deeply subordinated, and the rights of the holders of CCDS will be further subordinated*" above), holders of the Securities shall, in a winding-up or dissolution of the Society (save as otherwise provided in an Excluded Dissolution) which commences prior to any Conversion Date determined in accordance with Condition 8, be entitled to claim for the nominal amount of their Securities together with accrued but unpaid interest thereon (excluding interest which has been cancelled in accordance with the Conditions) and (if applicable) any damages awarded in respect thereof. Such claim shall be conditional upon all sums due in respect of claims in such winding-up or dissolution in relation to Senior Obligations having first been paid in full. For the avoidance of doubt, on a winding-up or dissolution of the Society which commences prior to the Conversion Date, the holders of the Securities shall have no claim in respect of the surplus assets (if any) of the Society remaining in any winding-up or dissolution following payment of all amounts due in respect of Senior Obligations and Parity Obligations.

Investors in the Securities who hold beneficial interests in the Securities (and, upon Conversion, the CCDS) through an account in Euroclear and/or Clearstream, Luxembourg will not be members of the Society and must rely on Euroclear and Clearstream, Luxembourg procedures

Securities held through an account with Euroclear and/or Clearstream, Luxembourg will be registered in the name of a nominee for the common depositary for the Clearing Systems (the "**Nominee**"). The Nominee shall be the sole holder for those Securities for the purposes of the Rules and the Conditions.

Accordingly, an investor holding beneficial interests in the Securities through an account in Euroclear and/or Clearstream, Luxembourg will not be a member of the Society by virtue of its investment in the Securities and will not directly benefit from the Rules, the Memorandum or the Act. Such investor shall be entitled to rights in respect of its beneficial interest in the Securities, as prescribed by the rules of Euroclear and/or Clearstream, Luxembourg, as the case may be, and must rely on the procedures of such relevant clearing systems to enforce its rights. The Society has no responsibility or liability for the records relating to beneficial interests in any Securities. Euroclear and Clearstream, Luxembourg will maintain records of the beneficial interests in the Global Certificate. While the Securities are in global form, investors will be able to trade their beneficial interests only through Euroclear and Clearstream, Luxembourg.

Upon Conversion, such investor would receive only beneficial interests in the CCDS through its account in Euroclear and/or Clearstream, Luxembourg and will not, through its holding of CCDS, be a member of the

Society by virtue of its investment in the CCDS and will not directly benefit from the Rules, the Memorandum or the Act.

Holders have limited or, if holding their Securities through Euroclear or Clearstream, Luxembourg, no voting rights at general meetings of the members of the Society

In contrast to general meetings of shareholders of a limited company where shareholders may exercise voting rights proportionate to the number of shares they hold, at a general meeting of the members of the Society, each member is entitled to one vote regardless of the size of its investment or interest in the Society. Only a member of the Society is entitled to vote at general meetings.

For so long as any Securities are held by the Nominee for and on behalf of Euroclear and Clearstream, Luxembourg, the Nominee shall be the only member of the Society in respect of those Securities, and shall have one vote in total in respect of all Securities so held by it. Given the difficulty of casting its one vote attaching to all the Securities in a manner which reflects the view of all the investors holding Securities through Euroclear and Clearstream, Luxembourg and the relative insignificance of that vote in the context of all the votes which may be cast by members of the Society, the Nominee has informed the Society that it does not intend to exercise that vote.

Further, even if definitive Securities were to be issued in the limited circumstances described in "*Summary of Provisions Relating to the Securities while Represented by the Global Certificate*" under "*1. Exchange of the Global Certificate and Registration of Title*", each holder of definitive Securities would be entitled to exercise only one vote at a general meeting of the members of the Society (subject to qualifying as a voting member under the Society's rules), regardless of the amount of Securities held by such holder, and such single vote will be insignificant in the context of all the votes which may be cast by members of the Society.

Accountholders will not be entitled to Society Conversion Benefits arising on a demutualisation or other transfer of the Society's business to a company

As Accountholders will not be members of the Society (see "*Investors in the Securities who hold beneficial interests in the Securities (and, upon Conversion, the CCDS) through an account in Euroclear and/or Clearstream, Luxembourg will not be members of the Society and must rely on Euroclear and Clearstream, Luxembourg procedures*" above), they will also not be entitled to any Society Conversion Benefits (as defined in Condition 1.3) (including any rights to windfall payments) arising on a demutualisation or other transfer of the Society's business to a company. Any Society Conversion Benefits arising on any such transaction will belong instead to the Nominee, as the registered holder of the Securities in the Securities Register. The Nominee will, on or prior to the date of issue of the Securities, assign to The Nationwide Foundation (or other charities nominated by The Nationwide Foundation) any Society Conversion Benefits to which it would otherwise become entitled at any time before, or within two years after, its membership of the Society comes to an end.

Further, even if definitive Securities were to be issued in the limited circumstances described in "*Summary of Provisions Relating to the Securities while Represented by the Global Certificate*" under "*1. Exchange of the Global Certificate and Registration of Title*", each holder of definitive Securities would have no right to retain any Society Conversion Benefits and would be required to assign any Society Conversion Benefits to (or waive its right to receive any Society Conversion Benefits in favour of) the Nationwide Foundation (or other charities nominated by The Nationwide Foundation).

No assurance of a market in the Securities; the market price of the Securities may fluctuate which could lead to investors losing some or all of their investment

The Securities represent a new security for which no secondary trading market currently exists. Although the Securities are intended to be admitted to trading on the ISM upon issue, there can be no assurance that a trading market in the Securities will develop. Following admission to trading of the Securities on the ISM, if a secondary trading market does develop for the Securities, the trading price of the Securities may be subject

to wide fluctuations in response to many factors, including those referred to in this risk factor, as well as stock market fluctuations and general economic conditions that may adversely affect the market price of the Securities. Publicly traded securities from time to time experience significant price and volume fluctuations that may be unrelated to the operating performance of the companies that have issued them, and such volatility may be increased in an illiquid market, including in circumstances where a significant proportion of the securities are held by a limited number of investors. There can be no assurance as to the liquidity of any trading market for the Securities or that an active market for the Securities will develop.

The Securities contain features which may not align directly to the investment criteria of fixed income investors or traditional equity investors. Accordingly, the market price of the Securities may prove to be highly volatile. If any market in the Securities does develop, it may become severely restricted, or may disappear, if the financial condition and/or either CET1 Ratio deteriorates such that there is an actual or perceived increased likelihood of the Society being unable, or electing not, to pay interest on the Securities in full, or of the Securities being Converted or otherwise subject to loss absorption under the Conditions or an applicable statutory loss absorption regime. In addition, the market price of the Securities may fluctuate significantly in response to a number of factors including, but not limited to, those set out below (some of which are beyond the Society's control):

- material decreases in the Society's capital ratios and/or any application of a Maximum Distributable Amount under Capital Regulations implementing, or similar to, Article 141 of CRD IV, or any application of a leverage-based or MREL-based maximum distributable amount, which could arise as a result of a number of factors including changes in regulation or losses incurred by the Society;

- variations in operating results in the Society's reporting periods;

- any shortfall in revenue or net profit or any increase in losses from levels expected by market commentators;

- increases in capital expenditure compared with expectations;

- any perception that the Society's strategy is or may be less effective than previously assumed or that the Society is not effectively implementing any significant projects;

- changes in financial estimates by securities analysts;

- changes in market valuations of similar entities;

- announcements by the Society of significant acquisitions, strategic alliances, joint ventures, new initiatives, new services or new service ranges;

- regulatory matters, including changes in regulatory regulations, PRA, FPC, FCA, HM Revenue & Customs or HM Treasury requirements;

- additions or departures of key personnel; and

- future issues or sales of Securities or other securities.

Any or all of these events could result in material fluctuations in the price of Securities which could lead to investors losing some or all of their investment.

The issue price of the Securities might not be indicative of prices that will prevail in the trading market, and there can be no assurance that an investor would be able to sell its Securities at or near the price which it paid for them, or at a price that would provide it with a yield comparable to more conventional investments that have a developed secondary market.

Although the Capital Regulations permit the Society and its subsidiaries, subject to regulatory approval and certain restrictions, to purchase Securities in the markets, they have no obligation to do so and in any event will generally not be permitted to do so before the fifth anniversary of the Issue Date (or, if any Further Securities are issued pursuant to Condition 16(a), the fifth anniversary of the issue date of the last such issue of Further Securities). Purchases made by the Society or any member of the Group could affect the liquidity of the secondary market of the Securities and thus the price and the conditions under which investors can negotiate these Securities on the secondary market.

In addition, holders should be aware that there may be a lack of liquidity in the secondary market which could result in investors suffering losses on the Securities in secondary re-sales even if there were no decline in the performance or the assets of the Society.

Risks related to succession and transfer of the Society's business, including the potential replacement of the Conversion feature of the Securities with a permanent write-down feature, and/or the issue to Securityholders of Bonds or Qualifying Parent Securities in place of the Securities

Condition 13 contains provisions applicable to the Securities upon an amalgamation by the Society with another building society under section 93 of the Act, a transfer of all or substantially all of its engagements to another building society under section 94 of the Act or a transfer by the Society of the whole of its business in accordance with section 97 of the Act to a company (a "**Successor Entity**").

Those provisions enable (in the context of such amalgamation or transfer only) certain amendments to be made to the terms of the Securities, or for the Securities to be replaced with Bonds issued by the Successor Entity or, in certain circumstances, Qualifying Parent Securities issued by a Qualifying Parent of the Successor Entity, in each case without the consent of the Securityholders. Any such amendments to, or replacement of, the Securities could be adverse to the interests of Securityholders. If (but only to the extent) so required in order for the Securities (or the replacement instruments) to continue to qualify as Tier 1 Capital of the Society or, as the case may be, the Successor Entity or the Qualifying Parent, the first optional repayment date under the terms of the Securities (or the replacement instruments) may be later than that provided for under Condition 7.2 as at the Issue Date.

Such provisions could also potentially result in amendments to the Conversion provisions of the Securities (or the replacement instruments), including the nature of the instrument into which the Securities would convert upon the occurrence of a Conversion Trigger. Furthermore, in circumstances where the Successor Entity or, where relevant, its parent does not have a viable instrument which could be delivered upon Conversion, the Conversion feature of the Securities (or the replacement Bonds or Qualifying Parent Securities) may be replaced with a permanent write-down feature. In those circumstances, upon the occurrence of such Conversion Trigger: the full nominal amount of such Securities (or replacement instruments) will automatically be written down to zero without the delivery of CCDS or any other instrument to the Securityholders; each Security (or replacement instrument) will be cancelled; the Securityholders will be automatically deemed to have irrevocably waived their right to receive, and will no longer have any rights against the Society (or the resulting society), the Successor Entity or, as the case may be, the Qualifying Parent with respect to repayment of the aggregate nominal amount of the Securities (or replacement instruments) so written down or delivery of any instrument as a result of such write-down; and all accrued but unpaid interest and any other amounts payable on each Security (or replacement instrument) will be cancelled, irrespective of whether such amounts have become due and payable prior to the occurrence of the Conversion Trigger.

Upon a demutualisation, the Society (or the Successor Entity) will, in certain circumstances, be able to elect whether Securityholders will receive, in place of their Securities, Bonds issued by the Successor Entity itself, or Qualifying Parent Securities issued by a Qualifying Parent of the Successor Entity. Whilst the provisions of Condition 13 provide that a Qualifying Parent must be incorporated in the United Kingdom or the European Economic Area and be a credit institution, a financial holding company or a mixed financial holding company within the meaning of the applicable prudential rules, and that such Bonds or Qualifying Parent Securities should, subject to Condition 13, be designed to qualify as tier 1 instruments and seek to

preserve substantially the economic effect of the Securities, there can be no assurance that they will do so. If Securityholders receive Qualifying Parent Securities, they may (in addition to being deeply subordinated within the creditor hierarchy of the Qualifying Parent) be structurally subordinated to all creditors (if any) of the Successor Entity, and the Qualifying Parent may be reliant upon receiving dividends or other cashflows from the Successor Entity in order to be able to make payments on the Qualifying Parent Securities.

Furthermore, in the event of a demutualisation of the Society, there can be no assurance that the business model, risk approach or strategic ambition of the Successor Entity or, as the case may be, its Qualifying Parent will be similar to that of the Society, and there can be no assurance that the holding of capital securities in a Successor Entity or a Qualifying Parent of the Successor Entity will offer a similar risk profile or return on investment when compared with the Securities. Building societies are organised under the provisions of the Act. The Act imposes a number of restrictions on the operation of a building society as compared to a bank, including (i) defining the purpose of a building society as "*that of making loans which are secured on residential property and funded substantially by its members*"; (ii) restricting the ability of building societies to engage in certain wholesale banking activities (for example, acting as a market maker in securities, commodities or currencies, trading in commodities or currencies, entering into certain transactions involving derivatives and limiting the risks for which derivatives hedging may be used); (iii) specifying certain limitations on the amount of non-mortgage lending that a building society is able to write (a minimum of 75 per cent. of loan assets, excluding liquid assets and fixed assets, must be secured on residential property); and (iv) limiting the volume of wholesale funding a building society may raise (at least 50 per cent. of funding (calculated in accordance with the Act) is required to be raised from retail depositors). A Successor Entity or, as the case may be, a Qualifying Parent of the Successor Entity may not be constrained in these or similar respects under its governing legislation, and accordingly its business strategy could involve a greater degree of risk than that of the Society due to factors such as (but not limited to) increased risk appetite, a more aggressive approach to risk management, increased leverage, greater reliance on wholesale funding and/or unsecured lending and increased use of derivative investments or proprietary trading.

Holdings of less than £200,000

The Securities are denominated in amounts of £200,000 and integral multiples of £1,000 in excess thereof. In the event that definitive Securities are required to be issued, a holder who holds a nominal amount which is less than £200,000 in its account with the relevant clearing system would not be able to sell the remainder of such holding without first purchasing a principal amount of Securities at or in excess of £200,000 such that its holding amounts to at least £200,000. Further, a holder who, as a result of trading such amounts, holds an amount which is less than £200,000 in his account with the relevant clearing system at the relevant time would need to purchase a nominal amount of Securities such that its holding amounts to at least £200,000 before it may receive a definitive Security in respect of such holding. Except in circumstances set out in the Global Certificate, investors will not be entitled to receive definitive Securities.

Limitation on gross-up obligation under the Securities

The Society's obligation, if any, to pay Additional Amounts (as defined in Condition 10) in respect of any withholding or deduction in respect of Taxes applies only to payments of interest due and payable under the Securities and not to payments of principal or any other amounts.

As such, the Society would not be required to pay any Additional Amounts under the terms of the Securities to the extent any withholding or deduction applied to payments of principal or other amounts which are not interest. Accordingly, if any such withholding or deduction were to apply to any payments of principal or other amounts which are not interest under the Securities, Securityholders will receive less than the full amount which would otherwise be due to them under the Securities, and the market value of the Securities may be adversely affected as a result.

A specified majority of holders may bind the minority; the approval of Securityholders is not required prior to a Conversion or to any change to the Rules of the Society

The Conditions of the Securities and the Agency Agreement contain provisions for calling meetings of holders of the Securities to consider matters affecting their interests generally. Resolutions may also be passed in writing or by way of electronic consents. These provisions permit defined majorities to bind all holders of the Securities, including holders who did not attend and vote at the relevant meeting or otherwise vote on the relevant resolution, as applicable, and holders who voted in a manner contrary to the majority. Such resolutions may include, amongst other things, the approval of variations to the Conditions, which could result in modifications to or the abrogation of Securityholders' rights in respect of their Securities.

The agreement or approval of the holders of the Securities shall not be required in the case of any Conversion in accordance with Condition 8 (as described in further detail above). Further, the Conditions do not limit the rights of members to change the Rules of the Society.

Dealings in the Securities could in certain circumstances become liable to UK stamp taxes

The Securities constitute "chargeable securities" for United Kingdom stamp duty reserve tax ("**SDRT**") purposes. The issue of the Securities into the Euroclear and/or Clearstream, Luxembourg should not be subject to a 1.5 per cent. SDRT charge. Transfers of Securities within Euroclear and/or Clearstream, Luxembourg should not be subject to SDRT provided that no election is or has been made under Section 97A of the Finance Act 1986 (a "**97A election**") by the relevant clearing system that applies to the Securities. It is currently expected that the Securities will be held within the Clearing Systems without a 97A election applying. If a 97A election were to apply to the Securities, transfers of the Securities within Euroclear and/or Clearstream, Luxembourg could, unless an exemption applies, be subject to SDRT at the rate of 0.5 per cent. of the consideration given under the agreement to transfer the Securities. Any such SDRT cost would not be borne by the Society and would generally be borne by the purchaser.

If definitive certificates in respect of the Securities were to be issued (in the limited circumstances provided in the Global Certificate), transfers of the Securities could, unless an exemption applies, be subject to stamp duty and/or SDRT also at the rate of 0.5 per cent. (rounded up to the nearest £5 in the case of stamp duty) of the consideration for the transfer. Any such stamp duty and/or SDRT cost would not be borne by the Society and would generally be borne by the purchaser.

The SDRT and stamp duty charges referred to above that may arise on transfers of the Securities whether within or outside of Euroclear and/or Clearstream, Luxembourg should not apply if the Securities are "hybrid capital instruments" taxable under the hybrid capital instruments tax regime in Chapter 12, Part 5 of the Corporation Tax Act 2009 as introduced by Finance Act 2019 (the "**HCI Rules**"). The Securities are expected to be taxable under the HCI Rules if (a) the Society makes an election within six months beginning on the date on which the Securities are issued for the HCI Rules to apply to them (an "**Election**"), and (b) the Society has not issued the Instruments in connection with any arrangements which have as their main purpose or one of their main purposes securing a tax advantage for the Society or for any other person (a "**Tax Advantage Scheme**"). The Society intends to make an Election within six months beginning on the date of issue of the Securities and the Society does not consider that the Securities are being issued as part of a Tax Advantage Scheme.

Dealings in the CCDS may in certain circumstances be liable to UK stamp taxes

Based on UK tax law as at the date of this Offering Circular, the CCDS to be issued in the event of a Conversion Trigger are expected to constitute "chargeable securities" for United Kingdom SDRT purposes. The Society intends that, in the event of a Conversion of the Securities, it would apply for the CCDS to be cleared in the Clearing Systems, in which case the CCDS would be delivered to a nominee for and on behalf of the Clearing Systems. On the basis of applicable law as at the date of this Offering Circular, the issue of the CCDS into the Clearing Systems on Conversion should not be subject to a 1.5 per cent. SDRT charge. However, there can be no assurance that the applicable law or practice in effect at the time of any

Conversion would enable the CCDS to be so issued and delivered without a charge to SDRT. If any SDRT cost were to arise on Conversion (including as a result of a change in law taking effect prior to Conversion), the cost will not be borne by the Society and in practice is likely to be borne by Securityholders.

Further, on the basis of applicable law as at the date of this Offering Circular, transfers of CCDS within the Clearing Systems should not be subject to SDRT provided that no 97A election is or has been made by the relevant Clearing System that applies to the CCDS. It is currently expected that it should be possible for the CCDS to be held within the Clearing Systems without a 97A election applying, although this will depend on law, practice and the terms of any 97A election made by the Clearing Systems at the time when the CCDS are issued on Conversion. If a 97A election were to apply to the CCDS, transfers of the CCDS within the Clearing Systems could, unless an exemption applies, be subject to SDRT at the rate of 0.5 per cent. of the consideration given under the agreement to transfer the CCDS. Any such SDRT cost would not be borne by the Society and would generally be borne by the purchaser.

Risks related to the market generally

Set out below is a brief description of the principal market risks, including liquidity risk, exchange rate risk, interest rate risk and credit risk:

Exchange rate risks and exchange controls

The Society will pay principal and interest on the Securities in sterling. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a different currency or currency unit (the "**Investor's Currency**"). These include the risk that exchange rates may significantly change (including changes due to devaluation of the sterling 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. A change in the value of the Investor's Currency relative to sterling would affect (i) the Investor's Currency-equivalent yield on the Securities, (ii) the Investor's Currency-equivalent value of the principal payable on the Securities and (iii) the Investor's Currency-equivalent market value of the Securities.

The Securities have a fixed rate of interest which will reset on each Reset Date

The Securities will accrue interest at a fixed rate of interest, which will be reset on each Reset Date. Investment in fixed rate instruments involves the risk that if market interest rates subsequently increase above the rate paid on the Securities, this will adversely affect the value of the Securities. The interest rate following any Reset Date may be less than the initial interest rate and/or the interest rate that applies immediately prior to such Reset Date, which would affect the amount of any interest payments under the Securities and so the market value of the Securities, and could have an impact on whether the Society decides to exercise its repayment rights.

Credit ratings may not reflect all risks

S&P, Fitch and Moody's are expected to assign credit ratings to the Securities. Credit rating agencies may also from time to time assign credit ratings to the Society and/or the Securities on an unsolicited basis. 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 without notice. Similar ratings on different types of securities do not necessarily mean the same thing. The aforementioned rating does not address the likelihood that the interest or principal on the Securities will be paid on any particular date. The ratings do not address the marketability of the Securities or any market price. Any change in the credit ratings of the Securities or the Society (including changes in any unsolicited credit ratings) could adversely affect the price that a subsequent purchaser will be willing to pay for the Securities. The significance of any rating should be evaluated independently of any other rating. The ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed above, and other factors that may affect the value of the Securities.

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 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). 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). If the status of the rating agency rating the Securities changes, European regulated investors may no longer be able to use the rating for regulatory purposes and the Securities may have a different regulatory treatment. This may result in European regulated investors selling the Securities which may impact the value of the Securities and any secondary market. The list of registered and certified rating agencies published by the European Securities and Markets Authority ("**ESMA**") on its website in accordance with the CRA Regulation is not conclusive evidence of the status of the relevant rating agency included in such list, as there may be delays between certain supervisory measures being taken against a relevant rating agency and the publication of the updated ESMA list. Certain information with respect to the credit rating agencies and ratings is set out at the front of this Offering Circular.

RISKS RELATING TO HOLDING CCDS

Upon Conversion, Securityholders are expected to receive CCDS. Disclosures on certain risks relating to an investment in CCDS are incorporated by reference in this Offering Circular – see "*Documents Incorporated by Reference*" below. Furthermore, the section "*Factors that may affect the Society's ability to fulfil its obligations under the Securities*" above in this Offering Circular will also be relevant to the Society's ability to fulfil its obligations under the CCDS.

The Society expects and intends that CCDS to be issued in the event of Conversion of the Securities would be consolidated and form a single class with the CCDS then in issue of the Society. The Society's CCDS presently in issue are admitted to the Standard Listing segment of the Official List maintained by the FCA and admitted to trading on the London Stock Exchange plc's main market for listed securities. Assuming that, at the time of Conversion, there are CCDS in issue and they are listed and admitted to trading, under the current FCA listing regime (i) the Society would be obliged to apply for the listing and admission to trading of the CCDS to be issued upon Conversion to occur within 30 days of their issue and (ii) the Society would benefit from an exemption from producing an offering circular in relation to the listing and admission to trading of the CCDS to be issued upon Conversion. However, there can be no assurance that at the time of Conversion other CCDS will be in issue or, if they are in issue, that they will be so admitted to listing and to trading. Further, in contrast to the customary terms of a standard convertible bond, the Society is not contractually obliged to list the CCDS to be issued upon Conversion and may not, for any reason, be in a position to do so either immediately or at all.

DOCUMENTS INCORPORATED BY REFERENCE

This Offering Circular should be read and construed in conjunction with:

(i) the Memorandum and Rules of the Society;

(ii) the audited consolidated annual financial statements of the Society for the financial years ended 4 April 2019 and 4 April 2018, in each case prepared in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board (as adopted by the European Commission for use in the European Union), together in each case with the audit report thereon and the notes thereto;

(iii) the section "*Conditions of Issue of the Core Capital Deferred Shares*" contained on pages 95-122 (inclusive) of the Prospectus dated 11 September 2017 and published by the Society in connection with its issue of CCDS (the "**CCDS Prospectus**"); and

(iv) the section "*Risks related to the CCDS*" contained on pages 55-65 (inclusive) of the CCDS Prospectus.

Such documents shall be incorporated in, and form part of this, Offering Circular, save that any statement contained in a document which is incorporated by reference herein shall be modified or superseded for the purpose of this Offering Circular to the extent that a statement contained herein modifies or supersedes such earlier statement (whether expressly, by implication or otherwise). Any statement so modified or superseded shall not, except as so modified or superseded, constitute a part of this Offering Circular.

Any other information not listed above but contained in any such document is incorporated by reference for information purposes only. Any documents themselves incorporated by reference in the documents incorporated by reference in this Offering Circular shall not form part of this Offering Circular.

Copies of documents incorporated by reference in this Offering Circular may be obtained from the Society's website at *www.nationwide.co.uk* and copies may be obtained (without charge) from the principal office of the Society. The content of the website referred to in this paragraph does not form part of this Offering Circular, save for the documents expressly incorporated by reference in this Offering Circular as described above.

In the event of any significant new factor, material mistake or inaccuracy relating to the information included in this Offering Circular which is capable of affecting the assessment of any Securities arising between the date of this Offering Circular and the commencement of dealings in the Securities following their admission to trading on the ISM, the Society will prepare and publish a supplement to this Offering Circular.

OVERVIEW OF CERTAIN PROVISIONS OF THE RULES OF THE SOCIETY AND THE ACT RELATING TO THE SECURITIES

The rights and restrictions attaching to the Securities will be governed by the rules of the Society (the "**Rules**"), certain provisions of the Building Societies Act 1986, as amended (the "**Act**") and the Conditions of Issue of the Securities (the "**Conditions**"). Set out below is an overview of the key provisions of the Rules and certain provisions of the Act insofar as they might affect the rights of the Securityholders, together with certain explanatory notes which are italicised. Terms defined in the Rules or the Conditions will, unless otherwise defined herein or the context otherwise requires, have the same meanings when used in this overview.

1. GENERAL

A person who has a share investment with the Society (including a deferred share investment) is an investing member of the Society. The Securities are a deferred share investment for the purposes of the Rules and therefore a person whose name is entered in the Securities Register (as defined below) as a Securityholder is an investing member of the Society.

Each Securityholder, and all persons claiming through it or on its behalf or under the Rules, shall be bound by the Rules, by the Memorandum of the Society and by the Act.

*The Securities will be held by investors through an account with Euroclear and/or Clearstream, Luxembourg and will be registered in the name of a nominee for the common depositary for the Clearing Systems (the "**Nominee**") who shall be the Securityholder for those Securities for the purposes of the Rules and the Conditions. An investor holding beneficial interests in the Securities through Euroclear and/or Clearstream, Luxembourg will not be a member of the Society by virtue of its investment in the Securities and (without prejudice to any rights or obligations that such person may have as a member of the Society in some other capacity) will be only indirectly subject to the Rules, the Memorandum and the Act with respect to its holding of the Securities in the manner provided above. Investors holding beneficial interests in the Securities through Euroclear and/or Clearstream, Luxembourg accounts shall be entitled to the rights in respect of their beneficial interests as prescribed by the rules of Euroclear and/or Clearstream, Luxembourg, as the case may be.*

Registration of title to the Securities in a name other than that of the Nominee will be permitted only if Euroclear and/or Clearstream, Luxembourg have closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or announce an intention permanently to cease business or do in fact do so. This is considered unlikely to occur. For so long as the Securities remain held in accounts with Euroclear and/or Clearstream, Luxembourg, references in this overview to "Securityholders" and related expressions shall be read as references to the Nominee.

2. REGISTER

The Society shall maintain records constituting the register of members for the purposes of the Securities (the "**Securities Register**"), in which shall be entered the name and address of each Securityholder. Each Securityholder shall notify the Society immediately of any change of name or address and shall produce such evidence of such change as the Society may require.

Transfers and other documents or instructions relating to or affecting the title to any Securities shall also be recorded in the Securities Register. No charge shall be made in respect of any entry in the Securities Register. The Securities Register shall be maintained at the specified office of the Registrar, or at such other place as the Board of Directors of the Society thinks fit.

The Society will appoint Citibank, N.A., London Branch at 6th Floor, Citigroup Centre, Canada Square, Canary Wharf, London E14 5LB as its registrar for the Securities.

3. MEETINGS OF THE MEMBERS OF THE SOCIETY

As an investing member of the Society, each Securityholder will, subject to the provisions of the Rules, enjoy various membership rights. In particular, Securityholders will, subject to the Rules, be entitled to receive notice of, to participate in a requisition for, to propose resolutions at, to attend, to be counted in a quorum at and to vote at any general meeting or in a postal ballot of the Society.

Each Securityholder will be entitled to exercise one vote (irrespective of the nominal amount of Securities held by it or the size or amount of other relevant investments or interests (if any) conferring membership rights which it may have in the Society) on a resolution at any general meeting or in a postal ballot (whether an ordinary resolution or special resolution or an investing members' resolution, but not a borrowing members' resolution) if that Securityholder held the Securities:

(a) at the end of the financial year before the voting date;

(b) on the voting qualification date; and

(c) on the voting date.

The members' rights attaching to the Securities held through Euroclear and/or Clearstream, Luxembourg will be held by the Nominee. Such Nominee will be entered in the Securities Register as the holder of the Securities held in this manner, and will be entitled to exercise the voting and other members' rights attributable to all those Securities so held. Accordingly, the Nominee shall have one vote (regardless of the nominal amount of Securities held by it and regardless also of the size and amount of other relevant investments or interests (if any) conferring membership rights which the Nominee may have in the Society) on a resolution at any general meeting of the Society or in a postal ballot.

Given the difficulty of casting the single vote in a manner which reflects the views of all investors holding Securities through Euroclear and/or Clearstream, Luxembourg and the relative insignificance of that vote in the context of all the votes which may be cast by members of the Society, the Nominee has informed the Society that it does not intend to exercise its vote insofar as such vote relates to its holding of the Securities.

The foregoing provisions relate to general meetings of the members of the Society. For provisions relating to the convening of separate meetings of the Securityholders only, see Condition 15 and "Summary of Provisions Relating to the Securities while Represented by the Global Certificate – Meetings; Membership rights whilst the Securities are held through Euroclear and/or Clearstream, Luxembourg".

4. WINDING-UP OR DISSOLUTION

On the winding-up or dissolution of the Society, any surplus remaining after the Society's creditors have been paid and all share investments (other than deferred share (core capital) investments unless and to the extent provided in their terms of issue) have been repaid (according to any order of priority under the terms of issue):

(a) shall be paid in accordance with the instrument of dissolution (if any), but otherwise

(b) shall be divided among those investing members of the Society who have held share investments (other than deferred share investments) of at least £100 continuously for two years at the relevant date in proportion to the amount of their share investments at that date and those investing members who hold deferred share investments at the relevant date subject to, and in proportion to the amount specified in, or calculated by reference to, their terms of issue. The relevant date is the earlier of either the date of notice of a winding-up or dissolution resolution or the date of presentation of a winding-up petition.

Holders of the Securities shall, in a winding-up or dissolution of the Society (save as otherwise provided in an Excluded Dissolution (as defined in Condition 19)) which commences prior to any Conversion Date determined in accordance with Condition 8, be entitled to claim for the nominal amount of their Securities together with accrued but unpaid interest thereon (excluding interest which has been cancelled in accordance with these Conditions) and, if applicable, any damages awarded in respect thereof. Such claim shall be conditional upon all sums due in respect of claims in such winding-up or dissolution in relation to Senior Obligations (as defined in Condition 4.2) having first been paid in full.

For the avoidance of doubt, on a winding-up or dissolution of the Society which commences prior to the Conversion Date, the holders of the Securities shall have no claim in respect of the surplus assets (if any) of the Society remaining in any winding-up or dissolution following payment of all amounts due in respect of the liabilities of the Society.

5. DISPUTES AND LEGAL PROCEEDINGS

Section 85 of, and Schedule 14, to the Act provide that no court other than the High Court of Justice in England shall have jurisdiction to hear and determine disputes between a building society and a member or a representative of a member in that capacity in respect of any rights or obligations arising from the rules of a building society or the Act. Under various other enactments, the High Court is empowered to transfer cases over which it has jurisdiction to the County Court.

CONDITIONS OF ISSUE OF THE SECURITIES

The following (save for paragraphs in italics, which do not form part of the conditions of issue) are the conditions of issue of the Securities as they apply to holders of the Securities and are in the form in which they will appear on the reverse of each Certificate:

The £600,000,000 Reset Perpetual Contingent Convertible Additional Tier 1 Capital Securities (the "**Securities**", which term shall include any further Securities issued pursuant to Condition 16(a) which are consolidated and form a single series with the Securities ("**Further Securities**")) are issued under, and are subject to, the Rules (the "**Rules**") of Nationwide Building Society (subject as provided in Condition 1.3, the "**Society**") for the time being. Securityholders are entitled to the benefit of, are bound by and are deemed to have notice of, the Rules. The Securities are also issued subject to, and with the benefit of, these conditions of issue (the "**Conditions**") and subject to an agency agreement (as amended from time to time, the "**Agency Agreement**") dated 24 September 2019 between the Society and Citibank, N.A., London Branch as registrar and transfer agent (in such capacities, the "**Registrar**") and principal paying agent (in such capacity, the "**Principal Paying Agent**"). In the event of inconsistency between the Rules, these Conditions and the Agency Agreement, the Rules will prevail and, subject thereto, in the event of inconsistency between these Conditions and the Agency Agreement, these Conditions will prevail. Securityholders are bound by and are deemed to have notice of all the provisions of the Agency Agreement applicable to them.

*While Securities are held on behalf of investors through an account with Euroclear and/or Clearstream Luxembourg, Securities will be registered in the name of a nominee for the common depositary for such clearing systems (the "**Nominee**"). The Nominee shall be the Securityholder for all of the Securities for the purposes of the Conditions, and not the investors holding beneficial interests in the Securities through Euroclear and/or Clearstream, Luxembourg. The investors holding the beneficial interests in Securities through Euroclear and/or Clearstream, Luxembourg accounts shall be entitled to the rights in respect of their beneficial interests as prescribed by the rules of Euroclear and/or Clearstream, Luxembourg, as the case may be.*

1 General

1.1 *Definitions*

Terms defined in the Rules will, unless otherwise defined herein or unless the context otherwise requires, have the same meanings when used in these Conditions. Other capitalised terms used in these Conditions shall have the meanings set out herein, including in Condition 19.

1.2 *Deferred shares*

The Securities:

(a) are deferred shares for the purposes of section 119 of the Act;

(b) are not protected deposits for the purpose of the Financial Services Compensation Scheme established under the FSMA;

(c) are not withdrawable; and

(d) are 'deferred share investments' (but not 'deferred share (core capital) investments') for the purposes of the Rules.

1.3 ***Society Conversion Benefits***

Rights to Society Conversion Benefits to which a Securityholder may become entitled by reason of its holding of Securities shall be required to be assigned to a charity nominated by the Society pursuant to any scheme for charitable assignment established by the Society for the time being.

As used herein, "**Society Conversion Benefits**" shall mean any benefits under the terms of any future transfer of the Society's business to a company (other than rights to receive Bonds issued by the Successor Entity or, as the case may be, Qualifying Parent Securities issued by a Qualifying Parent following the assumption of the Subordinated Deposit (as defined in Condition 13) and, if the Society merges with any other building society, "**Society**" shall, after the date of such merger, extend to such other society.

1.4 ***Waiver of Society Conversion Benefits***

If a Securityholder fails to assign any Society Conversion Benefits as required pursuant to Condition 1.3, it acknowledges that it waives its entitlement to retain any Society Conversion Benefits received by it and covenants promptly to pay and deliver such Society Conversion Benefits to The Nationwide Foundation (or to the Society for payment and delivery to The Nationwide Foundation) and until such time as payment is made, will hold a sum equal to such amount on trust for The Nationwide Foundation.

As investors holding beneficial interests in Securities through Euroclear and/or Clearstream, Luxembourg accounts will not be members of the Society, they will not be entitled to any Society Conversion Benefits. Any Society Conversion Benefits will belong instead to the Nominee, as the registered holder of the Securities in the Securities Register. The Nominee will, on or prior to the Issue Date, irrevocably agree to assign to The Nationwide Foundation (or other charities nominated by The Nationwide Foundation) any Society Conversion Benefits.

2 Form, denomination, title and transfer

2.1 ***Form and denomination***

The Securities are in registered form and are available and transferable in accordance with the Rules in minimum nominal amounts of £200,000 and integral multiples of £1,000 in excess thereof.

2.2 ***Title and transfer***

Title to the Securities passes only by registration in the Securities Register. The holder of any Securities will (except as otherwise required by law) be treated as its absolute owner for all purposes (regardless of any notice of ownership, trust or any interest or any writing on, or the theft or loss of, the Certificate issued in respect of it) and no person will be liable for so treating the holder.

No legal transfer of Securities shall be valid unless made in the form endorsed on the Certificate or in such other form as the Society may agree, which form shall be duly completed and signed (as appropriate) and presented to the Registrar. Legal title to the Securities will pass upon registration of such transfer in the Securities Register.

2.3 ***Certificates***

A certificate (each a "**Certificate**") will, if so requested in writing by such Securityholder and subject to Condition 3.3, be issued to each Securityholder in respect of its registered holding of Securities. Each Certificate will be numbered serially with an identifying number which will be

recorded on the relevant Certificate and in the Securities Register, and will specify the nominal amount of Securities registered in the name of such holder(s) as at the time of issue of such Certificate.

Each new Certificate to be issued following a transfer will be mailed by uninsured mail at the risk of the holder entitled to the Securities to the address specified in the form of transfer within 14 days of the date of registration of the transfer in the Securities Register (or, if later, within 14 days of the written request of the relevant Securityholder to be issued a Certificate).

Where some but not all of the Securities in respect of which a Certificate is issued are to be transferred, a new Certificate in respect of the nominal amount of Securities not so transferred will, within 14 days of receipt by the Registrar of the original Certificate, be mailed by uninsured mail at the risk of the holder of the Securities not so transferred to the address of such holder appearing on the Securities Register or as specified in the form of transfer.

Except in the limited circumstances described herein (see "Summary of Provisions Relating to the Securities While Represented by the Global Certificate – Exchange of the Global Certificate and Registration of Title"), owners of interests in the Securities will not be entitled to receive physical delivery of Certificates.

2.4 ***Formalities free of charge***

Registration of transfer of Securities will be effected without charge by or on behalf of the Society or the Registrar but upon payment (or the giving of such indemnity as the Society or the Registrar may reasonably require) in respect of any tax or other governmental charges which may be imposed in relation to such transfer.

3 Securities register

3.1 ***Registrar***

The Society has appointed the Registrar to act as registrar in respect of the Securities under the terms of the Agency Agreement.

3.2 ***Securities register***

Pursuant to the Agency Agreement, the Society shall procure that the Registrar maintains the Securities Register, in which shall be entered the name and address of each Securityholder and the nominal amount of the Securities held by each such Securityholder. Each Securityholder shall notify the Registrar immediately of any change of name or address and shall produce such evidence of change of name or address as the Registrar may reasonably require.

3.3 ***Certificates***

A Securityholder must provide the Registrar with a written order containing such instructions and other information as the Society and the Registrar may reasonably require to complete, execute and deliver a Certificate to such Securityholder.

3.4 ***Entries free of charge***

Transfers and other documents or instructions relating to or affecting the title of any Securities shall be recorded in the Securities Register. Subject as provided in Condition 2.4, no charge shall be made in respect of any entry in the Securities Register or any change in relation to such entry. The Securities Register shall be maintained at the specified office of the Registrar or at such other place as the Society and the Registrar shall agree.

4 Status, subordination and rights on a winding-up or dissolution

4.1 *Status*

The Securities constitute direct, unsecured and subordinated investments in the Society and, on a winding-up or dissolution of the Society, rank *pari passu* and without any preference among themselves. The rights and claims of the Securityholders are subordinated as described in Condition 4.2, and are subject to Conversion of the Securities as provided in Condition 8.

4.2 *Subordination*

On a winding-up or dissolution of the Society which commences prior to the Conversion Date (save as otherwise provided in an Excluded Dissolution), the rights and claims of Securityholders in respect of their Securities (including claims for any damages awarded in respect thereof) shall, subject to applicable insolvency law, rank:

(i) junior to:

(A) the claims of all creditors (including all subordinated creditors) and investing members (as regards the principal and interest due on such investing members' share investments) of the Society including, without limitation (but subject as follows), claims in respect of obligations of the Society which constitute Tier 2 Capital, but in each case excluding claims in respect of deferred share investments which are Parity Obligations or Junior Obligations; and

(B) the claims of all investing members (as regards the principal and interest due on such investing members' share investments) of the Society in respect of:

(1) (for so long as any of the same remain outstanding) the Existing PIBS; and

(2) any other deferred share investments in the Society except for deferred share investments which are (or the claims in respect of which are) Parity Obligations or Junior Obligations,

(claims preferred under this subparagraph (i) being, collectively, "**Senior Obligations**");

(ii) *pari passu* among themselves and with any other claims ranking, or expressed to rank, *pari passu* with claims in respect of the Securities ("**Parity Obligations**"); and

(iii) senior to all claims under any deferred share (core capital) investment in the Society (including the CCDS) and any other claims ranking, or expressed to rank, junior to either the Securities or any Parity Obligations ("**Junior Obligations**").

As used herein, "**investing members**", "**deferred share investment**" and "**deferred share (core capital) investment**" have the respective meanings ascribed thereto in the Rules.

4.3 *Rights on a winding-up or dissolution of the Society*

Holders of the Securities shall, in a winding-up or dissolution of the Society (save as otherwise provided in an Excluded Dissolution) which commences prior to the Conversion Date determined in accordance with Condition 8, be entitled to claim for the nominal amount of their Securities together with accrued but unpaid interest thereon (excluding interest which has been cancelled in accordance with these Conditions) and any damages awarded in respect thereof. Such claim shall be conditional upon all sums due in respect of claims in such winding-up or dissolution in relation to Senior Obligations having been paid in full.

For the avoidance of doubt, on a winding-up or dissolution of the Society which commences prior to the Conversion Date, the holders of the Securities shall have no claim in respect of the surplus assets (if any) of the Society remaining in any winding-up or dissolution following payment of all amounts due in respect of the liabilities of the Society.

On a winding-up or dissolution of the Society which commences on or after the Conversion Date but before the relevant CCDS have been issued as provided in Condition 8, the Securityholders shall have only those rights as set out in Condition 8.3.

4.4 *Solvency Test*

No payment of principal, interest or any other amount in respect of the Securities shall become due and payable unless, and to the extent that, the Society is able to make such payment and still be solvent immediately thereafter, in each case except in the winding-up or administration of the Society (the "**Solvency Test**").

In these Conditions, the Society shall be considered to be "**solvent**" if (x) it is able to pay its debts which are Senior Obligations as they fall due and (y) its Assets exceed its Liabilities. A report as to the solvency of the Society by two authorised signatories or, if the Society is in a winding-up, its liquidator, administrator or other analogous entity (as the case may be), shall, in the absence of manifest error, be treated and accepted by the Society and the Securityholders as correct and sufficient evidence thereof.

4.5 *Set off*

Subject to applicable law, no Securityholder may exercise, claim or plead any right of set-off, compensation or retention in respect of any amount owed to it by the Society in respect of, or arising under or in connection with, the Securities and each holder shall, by virtue of his holding of any Security, be deemed to have waived all such rights of set-off, compensation or retention. Notwithstanding the preceding sentence, if any of the amounts owing to any holder by the Society in respect of, or arising under or in connection with, the Securities is discharged by set-off, such holder shall, subject to applicable law, immediately pay an amount equal to the amount of such discharge to the Society (or, in the event of its winding-up or dissolution, the liquidator, administrator, receiver or other relevant insolvency official with primary responsibility for the winding-up or dissolution of the Society) and, until such time as payment is made, shall hold an amount equal to such amount in trust for the Society (or the liquidator administrator, receiver or, as appropriate, such relevant insolvency official (as the case may be)) and accordingly any such discharge shall be deemed not to have taken place.

5 Interest

5.1 *Interest Rate*

The Securities bear interest on their nominal amount from (and including) the Issue Date at the applicable Interest Rate in accordance with the provisions of this Condition 5.

Subject to Conditions 4.4, 6 and 8, interest shall be payable on the Securities semi-annually in arrear in equal instalments on each Interest Payment Date as provided in this Condition 5, except that the first payment of interest, to be made on 20 December 2019, will be in respect of the period from and including the Issue Date to but excluding 20 December 2019.

Where it is necessary to compute an amount of interest in respect of any Security for a period which is less than a full Interest Period, the relevant day-count fraction (the "**Day-Count Fraction**") shall be determined on the basis of (a) the actual number of days in the period from and including the date from which interest begins to accrue (the "**Accrual Date**") to but

excluding the date on which it falls due divided by (b) (i) the actual number of days from and including the Accrual Date (or, if the relevant accrual period falls within the short first Interest Period, from and including 20 June 2019) to but excluding the next following Interest Payment Date multiplied by (ii) two.

5.2 ***Interest accrual***

The Securities will cease to bear interest from (and including) (i) in the case of repayment pursuant to Condition 7.2, 7.3 or 7.4, the date of repayment thereof unless, upon surrender of the relevant Certificate, payment of all amounts due in respect of such Securities is not properly and duly made, in which event interest shall continue to accrue on the Securities, both before and after judgment, and shall be payable, as provided in these Conditions, up to (but excluding) the Relevant Date, and (ii) in the case of Conversion pursuant to Condition 8, the Conversion Date.

5.3 ***Calculation of interest amounts***

Interest in respect of any Security shall be calculated per Calculation Amount. The amount of interest payable (subject to Conditions 4.4, 6 and 8) in respect of a Security for a relevant period shall be calculated by (i) determining the product of the Calculation Amount, the relevant Interest Rate and the Day-Count Fraction (as described in Condition 5.1) for the relevant period, (ii) rounding the resultant figure to the nearest penny (half a penny being rounded upwards) and (iii) multiplying that rounded figure by a fraction the numerator of which is the nominal amount of such Security and the denominator of which is the Calculation Amount.

5.4 ***Initial Interest Rate and interest amounts***

For each Interest Period which commences prior to the First Reset Date, the Interest Rate shall be 5.875 per cent. per annum (the "**Initial Interest Rate**").

Provided the Securities are not Converted, and subject to Condition 4.4 and to the Society's discretion (which it may exercise at any time) or obligation to partially or fully cancel Interest Payments pursuant to Condition 6, the Interest Payment in relation to the short first coupon scheduled to be paid on 20 December 2019 will (if paid in full) amount to £13.965 per Calculation Amount and each subsequent semi-annual Interest Payment thereafter for each Interest Period which commences prior to the First Reset Date will (if paid in full) amount to £29.375 per Calculation Amount.

5.5 ***Reset Interest Rate***

For each Interest Period which commences on or after the First Reset Date, the Interest Rate shall be the Reset Interest Rate applicable to the Reset Period in which that Interest Period falls, as calculated by the Principal Paying Agent.

5.6 ***Determination of the Reset Interest Rate in relation to a Reset Period***

The Principal Paying Agent will, as soon as practicable after 11.00 a.m. (London time) on each Reset Determination Date in relation to a Reset Period, determine the Reset Interest Rate for such Reset Period and shall promptly notify the Society thereof. The Society shall cause notice of the relevant Reset Interest Rate and the amount of interest which, subject to Conditions 4.4, 6 and 8, will be payable per Calculation Amount to be given to the Securityholders in accordance with Condition 17 as soon as reasonably practicable after each relevant Reset Determination Date and in any event no later than the relevant Reset Date. Such determination of the relevant Reset Interest Rate shall (in the absence of manifest or proven error) be binding on the Society and the Securityholders.

6 Interest cancellation

6.1 *Optional cancellation of interest*

The Society may, in its sole discretion but subject at all times to Condition 4.4 and the requirements for mandatory cancellation of Interest Payments in Condition 6.2, at any time elect to cancel any Interest Payment, in whole or in part, which is scheduled to be paid on an Interest Payment Date.

Upon a decision by the Society to elect to cancel (in whole or in part) any Interest Payment under this Condition 6.1, the Society shall give notice of such election to the Securityholders in accordance with Condition 17 as soon as reasonably practicable on or prior to the relevant Interest Payment Date (provided that any failure to give such notice shall not affect the validity of the cancellation of any Interest Payment in whole or in part by the Society and shall not constitute a default under the Securities for any purpose). Such notice shall specify the amount of the relevant cancellation and, accordingly, the amount (if any) of the relevant Interest Payment that will be paid on the relevant Interest Payment Date.

If the Society does not pay any Interest Payment (or any part thereof) on any Interest Payment Date, such non-payment shall evidence the Society's exercise of discretion to cancel such Interest Payment (or the relevant part thereof) in accordance with this Condition 6.1, and such Interest Payment (or the cancelled part thereof) shall not become due and payable at any time.

The Regulator also has the power to require the Society to cancel Interest Payments, in whole or in part. The Society expects that the Regulator would be most likely to use this power in circumstances where the Society is failing, or is expected to fail, to meet its capital adequacy or other prudential requirements.

6.2 *Mandatory cancellation of interest*

The Society shall not pay any Interest Payment otherwise due on an Interest Payment Date if and to the extent that the amount of such Interest Payment otherwise due (together with any Additional Amounts payable thereon pursuant to Condition 10, if applicable), together with any interest payments or distributions which have been paid or made or which are required to be paid or made during the then current Financial Year on other own funds items (excluding any such interest payments or distributions which (i) are not required to be made out of Distributable Items or (ii) have already been provided for, by way of deduction, in the calculation of Distributable Items), shall, in aggregate, exceed the amount of Distributable Items of the Society as at such Interest Payment Date.

In addition, the Society shall not pay any Interest Payment otherwise due on an Interest Payment Date if and to the extent that the payment of such Interest Payment (together with any Additional Amounts payable thereon pursuant to Condition 10, if applicable) would cause, when aggregated together with other distributions of the kind referred to in Article 141(2) of the Capital Requirements Directive (or any provision of applicable law transposing or implementing Article 141(2) of the Capital Requirements Directive, as amended or replaced, or any equivalent or similar law, rule or provision of the Capital Regulations, in each case to the extent then applicable to the Society), the Maximum Distributable Amount (if any) then applicable to the Society to be exceeded. "**Maximum Distributable Amount**" means any applicable maximum distributable amount relating to the Society required to be calculated in accordance with Article 141 of the Capital Requirements Directive (or as the case may be, any provision of applicable law transposing or implementing the Capital Requirements Directive, as amended or replaced, or any equivalent or similar law, rule or provision of the Capital Regulations which requires a maximum distributable amount to be calculated or if the Society is failing to meet any capital adequacy requirement, in each case to the extent then applicable to the Society).

The Society will also exercise its discretion to cancel Interest Payments (in whole or in part) on the Securities in any other circumstances in which the Capital Regulations or any other applicable laws or regulations in effect from time to time (or where the Regulator or an applicable resolution authority acting pursuant to such Capital Regulations or other applicable laws or regulations) require Interest Payments on the Securities to be so cancelled (including, but not limited to, if the Society becomes subject to any applicable leverage-based or MREL-based maximum distributable amount restrictions). See further the risk factor entitled "The Capital Regulations provide for capital requirements that are in addition to the minimum capital requirement. These additional capital requirements will restrict the Society from making interest payments on the Securities in certain circumstances, in which case the Society will automatically cancel such interest payments" in this Offering Circular.

As used above, "**Distributable Items**" means, in respect of any Interest Payment, those profits and reserves (if any) of the Society which are available, in accordance with applicable law and regulation for the time being, for the payment of such Interest Payment.

As at the date of this Offering Circular, Article 4(1)(128) of the Capital Requirements Regulation provides as follows: "distributable items" means the amount of the profits at the end of the last financial year plus any profits brought forward and reserves available for that purpose, before distributions to holders of own funds instruments, less any losses brought forward, any profits which are non-distributable pursuant to Union or national law or the institution's by-laws and any sums placed in non-distributable reserves in accordance with national law or the statutes of the institution, in each case with respect to the specific category of own funds instruments to which Union or national law, institutions' by-laws, or statutes relate; such profits, losses and reserves being determined on the basis of the individual accounts of the institution and not on the basis of the consolidated accounts.

Upon the Society being prohibited from making any Interest Payment under this Condition 6.2, the Society shall as soon as reasonably practicable on or prior to the relevant Interest Payment Date give notice of such non-payment and the reason therefor to the Securityholders in accordance with Condition 17 (provided that any failure to give such notice shall not affect the cancellation of any Interest Payment in whole or in part by the Society and shall not constitute a default under the Securities for any purpose).

6.3 *Interest non-cumulative; no default*

Any Interest Payment (or part thereof) not paid on any relevant Interest Payment Date by reason of Condition 4.4, 6.1, 6.2 or 8 shall be cancelled and shall not accumulate or be payable at any time thereafter. Non-payment of any Interest Payment (or part thereof) in accordance with any of Condition 4.4, 6.1, 6.2 or 8 will not constitute an event of default by the Society for any purpose, and the Securityholders shall have no right thereto whether in a winding-up or dissolution of the Society or otherwise.

7 Repayment and purchase

7.1 *No fixed maturity*

The Securities constitute permanent non-withdrawable deferred shares (as defined in the Act) in the Society and have no fixed repayment date. The Securities will become repayable only as provided in this Condition 7 and in Condition 4.

7.2 *Society's option to repay*

The Society may, subject to Condition 7.5 and having given not less than 15 nor more than 30 days' notice to the Securityholders in accordance with Condition 17 (which notice shall, subject

to Condition 7.5, be irrevocable and shall specify the relevant repayment date), elect to repay all, but not some only, of the Securities then outstanding:

(i) on any day falling in the period commencing on (and including) 20 December 2024 and ending on (and including) the First Reset Date; or

(ii) on any Reset Date,

in each case at their nominal amount together with accrued but unpaid interest thereon (excluding interest which has been cancelled in accordance with these Conditions).

Upon the expiry of such notice, the Society shall, subject to Condition 7.5, repay the Securities accordingly.

7.3 ***Repayment for tax reasons***

If a Tax Event has occurred and is continuing, the Society may, at any time but subject to Condition 7.5 and having given not less than 30 nor more than 60 days' notice to the Securityholders in accordance with Condition 17 (which notice shall, subject to Condition 7.5, be irrevocable), elect to repay all, but not some only, of the Securities then outstanding at their nominal amount together with accrued but unpaid interest thereon (excluding interest which has been cancelled in accordance with these Conditions).

Upon the expiry of such notice, the Society shall, subject to Condition 7.5, repay the Securities accordingly.

As used herein:

A "**Tax Event**" will occur if, as a result of a change in, or amendment to, the laws or regulations of any taxing jurisdiction or, in each case, any political subdivision or any authority thereof or therein having power to tax, including any treaty to which the relevant taxing jurisdiction is a party, or a change in an official application or interpretation of those laws or regulations on or after the Reference Date, including a decision of any court or tribunal which becomes effective on or after the Reference Date (a "**Tax Law Change**"):

(i) in making any payments on the Securities, the Society has paid or will or would on the next payment date be required to pay Additional Amounts (as defined in Condition 10); or

(ii) the Society would not be entitled to claim a deduction in respect of any interest payable (or, if relevant, equivalent expense accruing) in respect of the Securities in computing its taxation liabilities or the amount of any such deduction would be materially reduced; or

(iii) the Society would have to bring into account a taxable credit in connection with a Conversion (or, in the circumstances contemplated in Condition 13.3, a permanent write-down) of the Securities; or

(iv) the Society would incur any other taxation liability or liabilities as a consequence of changes in the value of the Securities for accounting purposes or any other relevant taxation purposes,

in each case provided that the consequences of such event cannot be avoided by the Society taking reasonable measures available to it.

The Society shall make available to the Securityholders, at the same time as giving a notice to repay under this Condition 7.3, a copy of an opinion of an independent nationally recognised law firm or other tax adviser in the relevant taxing jurisdiction experienced in such matters to the effect that the circumstances set out one or more of limbs (i) to (iv) of the definition of Tax Event have occurred and are continuing.

7.4 ***Repayment for regulatory reasons***

If a Regulatory Event has occurred and is continuing, the Society may, at any time but subject to Condition 7.5 and having given not less than 30 nor more than 60 days' notice to the Securityholders in accordance with Condition 17 (which notice shall, subject to Condition 7.5, be irrevocable), elect to repay all, but not some only, of the Securities then outstanding at their nominal amount together with accrued but unpaid interest thereon (excluding interest which has been cancelled in accordance with these Conditions).

Upon the expiry of such notice, the Society shall, subject to Condition 7.5, repay the Securities accordingly.

A "**Regulatory Event**" will occur if, as a result of a change (or pending change which the Regulator considers to be sufficiently certain) in the regulatory classification of the Securities under the Capital Regulations, the entire nominal amount of the Securities or any part thereof ceases (or would cease) to be part of the Society's Tier 1 Capital (whether on an individual consolidated or a consolidated basis).

7.5 ***Conditions to repayment and purchase***

Any repayment or purchase of the Securities pursuant to this Condition 7 is subject to:

(i) the Society providing such notice to the Regulator and obtaining such approval, permission or consent from the Regulator as is required under the then prevailing Capital Regulations; and

(ii) the Society having demonstrated to the satisfaction of the Regulator that either: (A) the Society has (or will have) replaced the Securities with own funds instruments of equal or higher quality at terms that are sustainable for the income capacity of the Society; or (B) the own funds and eligible liabilities of the Society would, following such repayment or purchase, exceed its minimum requirements (including any applicable buffer requirements) by a margin that the Regulator considers necessary at such time; and

(iii) in respect of a repayment or purchase prior to the fifth anniversary of the Reference Date:

(A) in the case of repayment upon the occurrence of a Tax Event, the Society has demonstrated to the satisfaction of the Regulator that (1) the change in tax treatment is material and (2) the relevant Tax Law Change was not reasonably foreseeable as at the Reference Date; or

(B) in the case of repayment upon the occurrence of a Regulatory Event, the Society has demonstrated to the satisfaction of the Regulator that the change (or pending change) in the regulatory classification of the Securities was not reasonably foreseeable as at the Reference Date; or

(C) in the case of a purchase pursuant to Condition 7.6, the Society having demonstrated to the satisfaction of the Regulator that the Society has (or will have), before or at the same time as such purchase, replaced the Securities with own funds instruments of equal or higher quality at terms that are sustainable for the income capacity of the

Society, and the Regulator having permitted such action on the basis of the determination that it would be beneficial from a prudential point of view and justified by exceptional circumstances; or

(D) the Securities being purchased for market-making purposes in accordance with the Capital Regulations,

provided that if, at the time of such repayment or purchase, the prevailing Capital Regulations permit the repayment or purchase only after compliance with one or more alternative or additional pre-conditions to those set out in paragraphs (i), (ii) and, where applicable, (iii) above, the Society shall, in the alternative or in addition to the foregoing (as required by the Capital Regulations), comply with such alternative and/or additional pre-condition(s).

In addition, notwithstanding any other provision of these Conditions, if the Society has elected to repay the Securities but the Solvency Test is not satisfied in respect of the relevant payment on the date scheduled for repayment, the relevant repayment notice shall be automatically rescinded and shall be of no force and effect and, accordingly, no repayment of the nominal amount of the Securities or any interest thereon will be due and payable on the scheduled repayment date, and the Securities will continue to remain outstanding on the same basis as if no repayment notice had been given.

Further, if the Society has elected to repay the Securities but, prior to the repayment of the nominal amount, a Conversion Trigger occurs, the relevant repayment notice shall be automatically rescinded and shall be of no force and effect, no repayment of the nominal amount of the Securities or any interest thereon will be due and payable on the scheduled repayment date and, instead, a Conversion shall occur in respect of the Securities as described under Condition 8.

The Society shall not be entitled to give notice of any repayment under this Condition 7 following the occurrence of a Conversion Trigger.

7.6 *Purchases*

Subject to Condition 7.5 and the Capital Regulations, the Society or any of its Subsidiaries may at any time purchase or otherwise acquire Securities in any manner and at any price. Subject to applicable law, such Securities may, at the election of the Society, be held, reissued, resold or surrendered to the Registrar for cancellation.

7.7 *Cancellation*

All Securities repaid, all Securities purchased (or otherwise acquired) by the Society or any of its Subsidiaries as aforesaid and surrendered for cancellation, and all Securities which are Converted, shall be cancelled forthwith and such Securities may not be reissued or resold.

8 Conversion

8.1 *Conversion on a Conversion Trigger*

If, at any time, the Society, the Regulator or any agent appointed for such purpose by the Regulator determines that either CET1 Ratio has fallen below 7.00 per cent. (the "**Conversion Trigger**"), the Society shall immediately notify the Regulator (unless the relevant determination was made by the Regulator) and promptly shall notify the Securityholders (in accordance with Condition 17) of the occurrence of the Conversion Trigger and, without delay and by no later than one month (or such shorter period as the Regulator may require) following the determination that the Conversion Trigger has occurred:

(a) cancel any interest which has accrued and remains unpaid up to (and including) the relevant Conversion Date (whether or not such interest has become due for payment);

(b) irrevocably (without the need for the consent of Securityholders) write down the Securities by reducing the nominal amount of each Security to zero; and

(c) issue to each Securityholder such number of CCDS as is equal to the aggregate nominal amount of that Securityholder's Securities divided by the Conversion Price (such write-down under Condition 8.1(b) above and issue of CCDS under this Condition 8.1(c) being referred to as a "**Conversion**", and "**Converted**" being construed accordingly).

Such cancellation of interest, write-down of the Securities and (subject as provided in these Conditions) issue of CCDS to Securityholders shall occur on the Conversion Date specified in the Conversion Notice (as defined below).

For the purposes of determining whether a Conversion Trigger has occurred, each CET1 Ratio may be calculated at any time based on information (whether or not published) available to the management of the Society, including information internally reported within the Society pursuant to its procedures for monitoring each CET1 Ratio.

Fractions of CCDS will not be delivered in connection with any Conversion. Any fractional entitlement to a CCDS which a Securityholder would otherwise obtain as a result of a Conversion will be cancelled, no cash payment or other adjustment will be made in respect thereof and the Securityholder shall have no claim in respect thereof, whether on a winding-up or dissolution of the Society or otherwise.

8.2 ***Conversion Notice***

The Society shall, as soon as reasonably practicable following the determination that a Conversion Trigger has occurred, and in any event not less than 5 days prior to the Conversion Date (provided that shorter notice shall not constitute a default under the Securities for any purpose or affect the Conversion of the Securities on the Conversion Date), give notice (which notice shall be irrevocable) to the Securityholders in accordance with Condition 17 (the "**Conversion Notice**") stating (i) that the Conversion Trigger has occurred, (ii) the Conversion Date, (iii) the prevailing Conversion Price and (iv) the procedures Securityholders will need to follow (if any) to receive CCDS pursuant to Condition 8.1(c).

Not later than the giving of the relevant Conversion Notice, the Society shall deliver to the Principal Paying Agent on behalf of the Securityholders a certificate signed by two authorised signatories of the Society confirming that the Conversion Trigger has occurred.

8.3 ***Consequences of a Conversion***

A write-down of the Securities under Condition 8.1(b) shall be deemed effective with effect from the relevant Conversion Date and without the requirement for any further formality. Upon such write-down, the Securities, and any accrued and unpaid interest in respect thereof (whether or not such interest has become due for payment), shall be immediately cancelled in accordance with Condition 8.1(a).

Such write-down and cancellation of the Securities and cancellation of interest shall be independent of the timing of the issue of CCDS to Securityholders under Condition 8.1(c) and, accordingly, shall be effective as of the Conversion Date whether or not the CCDS to be issued to Securityholders under Condition 8.1(c) are so issued on the Conversion Date. If the Society fails to issue such CCDS, or there is any delay in the issue or delivery of such CCDS to any Securityholder, a Securityholder's only right under the Securities against the Society for such

failure will be to claim to have such CCDS so issued to it, and the Securityholders shall be deemed irrevocably to have waived any other rights in respect of their Securities.

The nominal amount by which the Securities are written down shall be applied, directly or indirectly, to paying up the CCDS to be issued to Securityholders under Condition 8.1(c), and the Securityholders shall be deemed irrevocably to have directed and authorised the Society to apply such amounts for such purpose on their behalf.

The paying up of the CCDS is expected to be reflected in the Society's accounts as credits to CCDS nominal and CCDS premium by an aggregate amount equal to the nominal amount by which the Securities are written down. It is anticipated that the paying up and issue of CCDS will be simultaneous with the write-down and cancellation of the Securities.

Once the nominal amount of a Security has been written down, the nominal amount will not be restored in any circumstances, including where the relevant Conversion Trigger ceases to continue.

The write-down and cancellation of the Securities and the cancellation of interest thereon in accordance with this Condition 8 will not constitute a default under the Securities for any purpose. Following the Securities being written down in accordance with this Condition 8, no amount shall at any time be or become due and payable to the Securityholders in respect of the Securities, and the liability of the Society to pay any amounts in respect of the Securities (including the nominal amount of, any interest in respect of and any other amounts in connection with the Securities) shall be automatically released (but this is without prejudice to the right of Securityholders to claim for the issue to them of CCDS pursuant to Condition 8.1(c)).

The Securities are not convertible into CCDS at the option of the Securityholders at any time.

8.4 ***Conversion Price***

The "**Conversion Price**" is £100.00, subject to adjustment in accordance with Condition 8.5.

8.5 ***Conversion Price adjustments***

Upon the happening of any of the events described below, the Conversion Price shall be adjusted as follows, in each case as determined by the Society or any Calculation Agent appointed by the Society for such purpose:

(a) If and whenever there shall be a consolidation, reclassification/redesignation or subdivision affecting the number of CCDS, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to such consolidation, reclassification/redesignation or subdivision by the following fraction:

$$\frac{A}{B}$$

where:

"**A**" is the aggregate number of CCDS in issue immediately before such consolidation, reclassification/redesignation or subdivision, as the case may be; and

"**B**" is the aggregate number of CCDS in issue immediately after, and as a result of, such consolidation, reclassification/redesignation or subdivision, as the case may be.

Such adjustment shall become effective on the date the consolidation, reclassification/redesignation or subdivision, as the case may be, takes effect.

(b) If and whenever the Society shall issue any CCDS credited as fully paid to the CCDS holders as a class by way of capitalisation of profits or reserves (including any share premium account or capital redemption reserve, if any), the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to such issue by the following fraction:

$$\frac{A}{B}$$

where:

"**A**" is the aggregate number of CCDS in issue immediately before such issue; and

"**B**" is the aggregate number of CCDS in issue immediately after such issue.

Such adjustment shall become effective on the date of issue of such CCDS.

(c) If and whenever the Society shall issue CCDS to CCDS holders as a class by way of rights, or the Society or (at the direction or request or pursuant to any arrangements with the Society) any other company, person or entity shall issue or grant to CCDS holders as a class by way of rights, any options, warrants or other rights to subscribe for or purchase or otherwise acquire any CCDS, or any securities which by their terms of issue carry (directly or indirectly) rights of conversion into, or exchange or subscription for, or the right to acquire, any CCDS (or shall grant any such rights in respect of existing securities so issued), in each case at a price per CCDS which is less than 95% of the Current Market Price per CCDS on the Effective Date, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to the Effective Date by the following fraction:

$$\frac{A + B}{A + C}$$

where:

"**A**" is the number of CCDS in issue on the Effective Date;

"**B**" is the number of CCDS which the aggregate consideration (if any) receivable for the CCDS issued by way of rights, or for the securities issued by way of rights, or for the options or warrants or other rights issued or granted by way of rights and for the total number of CCDS deliverable on the exercise thereof, would purchase at such Current Market Price per CCDS on the Effective Date; and

"**C**" is the number of CCDS to be issued or, as the case may be, the maximum number of CCDS which may be issued upon exercise of such options, warrants or rights calculated as at the date of issue of such options, warrants or rights or upon conversion or exchange or exercise of rights of subscription or purchase or other rights of acquisition in respect thereof at the initial conversion, exchange, subscription, purchase or acquisition price or rate,

provided that if, on the Effective Date, such number of CCDS is to be determined by reference to the application of a formula or other variable feature or the occurrence of any event at some subsequent time, then for the purposes of this Condition 8.5(c), "**C**" shall

be determined by the application of such formula or variable feature or as if the relevant event occurs or had occurred as at the Effective Date and as if such conversion, exchange, subscription, purchase or acquisition had taken place on the Effective Date.

Such adjustment shall become effective on the Effective Date.

As used herein:

"**Effective Date**" means, in respect of this Condition 8.5(c), the first date on which the CCDS are traded ex-rights, ex-options or ex-warrants or (to the extent it is not reasonably practicable to determine when the CCDS are traded ex-rights, ex-options or ex-warrants) the day following the expiry of the relevant options, warrants or rights; and

"**by way of rights**" means in compliance with the pre-emption rights (if any) afforded to CCDS holders at the relevant time under the terms of the outstanding CCDS of the Society, and related references to "**rights**" shall be construed accordingly.

(d) Notwithstanding paragraphs (a), (b) and (c) above, no adjustment to the Conversion Price will be made:

(i) as a result of the payment of any Distribution;

(ii) to the extent CCDS or other securities (including convertible or exchangeable securities, rights or options in relation to CCDS and other securities) are issued, offered or granted as consideration for the purchase of shares or assets of companies or other organisations;

(iii) if an increase in the Conversion Price would result from such adjustment (except an increase pursuant to paragraph (a) above); or

(iv) if it would result in the Conversion Price being reduced below the nominal value of a CCDS (which, as at the Issue Date, is £1).

(e) Notwithstanding the foregoing provisions:

(i) where the events or circumstances giving rise to any adjustment pursuant to this Condition 8.5 have already resulted or will result in an adjustment to the Conversion Price or where the events or circumstances giving rise to any adjustment arise by virtue of any other events or circumstances which have already given or will give rise to an adjustment to the Conversion Price or where more than one event which gives rise to an adjustment to the Conversion Price occurs within such a short period of time that, in the opinion of the Society, a modification to the operation of the adjustment provisions is required to give the intended result, such modification shall, subject to compliance with the prevailing Capital Regulations, be made to the operation of the adjustment provisions as may be determined in good faith by an Independent Adviser to be in its opinion appropriate to give the intended result; and

(ii) such modification shall, subject to compliance with the prevailing Capital Regulations, be made to the operation of these Conditions as may be determined in good faith by an Independent Adviser to be in its opinion appropriate to ensure that an adjustment to the Conversion Price or the economic effect thereof shall not be taken into account more than once.

8.6 ***Decision of an Independent Adviser***

If any doubt shall arise as to whether an adjustment falls to be made to the Conversion Price or as to the appropriate adjustment to the Conversion Price (including, without limitation, as to the determination of any Effective Date or Current Market Price), and following consultation between the Society and an Independent Adviser, a written determination of such Independent Adviser in respect thereof shall be conclusive and binding on all parties, save in the case of manifest error.

In the absence of bad faith or fraud, the Independent Adviser shall not be liable to the Principal Paying Agent, the Registrar, the Securityholders or any other person for any determination made by it pursuant to these Conditions.

Notwithstanding any other provision of these Conditions, if, in circumstances requiring any determination to be made by an Independent Adviser under this Condition 8, the Society is unable, having used reasonable endeavours, to appoint an Independent Adviser for such purpose, the Society itself, acting in a commercially reasonable manner, shall be entitled (but not obliged) to make the relevant determination. Such determination will be treated under these Conditions as if it were a determination made by an Independent Adviser, and the Society shall not be liable to the Principal Paying Agent, the Registrar, the Securityholders or any other person for any such determination made by it in good faith.

8.7 ***Option schemes and reinvestment plans***

No adjustment will be made to the Conversion Price where CCDS or other securities (including rights, warrants and options) are issued, offered, exercised, allotted, purchased, appropriated, modified or granted to, or for the benefit of, employees or former employees (including directors holding or formerly holding executive or non-executive office or the personal service company of any such person) or their spouses or relatives, in each case, of the Society or any associated company or to a trustee or trustees to be held for the benefit of any such person, in any such case pursuant to any share or option scheme or pursuant to any dividend reinvestment plan or similar plan or scheme.

8.8 ***Rounding down and notice of adjustment to the Conversion Price***

On any adjustment, the resultant Conversion Price, if not an integral multiple of £0.001, shall be rounded down to the nearest whole multiple of £0.001. No adjustment shall be made to the Conversion Price where such adjustment (rounded down if applicable) would be less than 1 per cent. of the Conversion Price then in effect. Any adjustment not required to be made and/or any amount by which the Conversion Price has been rounded down, shall be carried forward and taken into account in any subsequent adjustment, and such subsequent adjustment shall be made on the basis that the adjustment not required to be made had been made at the relevant time and/or, as the case may be, that the relevant rounding down had not been made.

Notice of any adjustments to the Conversion Price shall be given by the Society to Securityholders in accordance with Condition 17 promptly after the determination thereof.

8.9 ***Taxes etc.***

The Society shall not be liable for any taxes or capital, stamp, issue, registration or transfer taxes or duties arising on Conversion or that may arise or be paid as a consequence of the delivery of CCDS upon Conversion. A Securityholder must pay any taxes and capital, stamp, issue, registration and transfer taxes and duties arising on Conversion as a consequence of any disposal or deemed disposal of its Securities (or any interest therein) and/or the issue or delivery to it of any CCDS (or any interest therein).

8.10 ***CCDS***

CCDS issued upon Conversion will be fully paid and will in all respects rank *pari passu* with the fully paid CCDS (if any) in issue on the Conversion Date, except in any such case for any right excluded by mandatory provisions of applicable law and except that such CCDS will not rank for (or, as the case may be, the relevant holder shall not be entitled to receive) any rights, distributions or payments as of any applicable record date or other due date for the establishment of entitlement for which falls prior to the Conversion Date.

It is intended that any CCDS issued upon Conversion will, with effect from the Conversion Date or as soon as appropriate thereafter, be consolidated and form a single series with the CCDS of the Society then in issue (if any).

8.11 ***Calculation of CET1 Ratio: application of transitional or grandfathering provisions***

(a) The determination of each CET1 Ratio (including each determination of Common Equity Tier 1 and Risk Weighted Assets for the purposes of calculating each CET1 Ratio) shall be made in accordance with the prevailing Capital Regulations at the relevant time, provided that:

(i) the transitional arrangements in effect at the Issue Date as set out in Part Ten of the Capital Requirements Regulation shall be disregarded, other than the transitional arrangements set out in Article 473a of the Capital Requirements Regulation which may (or may not) be applied by the Society from time to time in its sole discretion in accordance with the then-prevailing Capital Regulations; and

(ii) any other or future transitional arrangements which are relevant for the purposes of determining each CET1 Ratio (including each determination of Common Equity Tier 1 and Risk Weighted Assets) shall be disregarded or applied, as the case may be, from time to time as follows:

(A) if, and to the extent that, the Regulator requires any such transitional arrangements to be disregarded (or applied) for such purposes, such transitional arrangements shall be so disregarded (or, as the case may be, so applied); and

(B) if, and to the extent that, the Society is permitted by the Regulator to determine whether or not to apply such transitional arrangements, such transitional arrangements shall be applied or, as the case may be, disregarded as determined by the Society in its sole discretion.

(b) For so long as any of the Securities remain outstanding, whenever the Society publishes its common equity tier 1 ratio as at any date in its regular Pillar 3 Disclosures (or, at the Society's election, as part of its published annual or interim financial statements), it will also publish, as part of those disclosures or on its website, or will otherwise make available for inspection by the Securityholders, each CET1 Ratio calculated in accordance with this Condition 8.11 as at the same date.

9 Payments

9.1 *Method of payment*

(i) Payments of principal shall be made (subject to surrender of the relevant Certificates at the specified office of the Registrar if no further payment falls to be made in respect of the Securities represented by such Certificates) in the manner provided in paragraph (ii) below.

(ii) Interest on each Security shall be paid to the person shown on the Register at the close of business on the fifteenth day before the due date for payment thereof (the "**Record Date**"). Payments of interest on each Security shall be made in Sterling by cheque drawn on a bank and mailed to the Securityholder (or to the first named of joint Securityholders) of such Security at its address appearing in the Register. Upon application by the Securityholder to the specified office of the Registrar before the Record Date, such payment of interest may be made by transfer to a Sterling account specified by the payee.

Notwithstanding this Condition 9.1, all payments in respect of Securities held through Euroclear and/or Clearstream, Luxembourg accounts will be credited to the cash accounts of Euroclear and/or Clearstream, Luxembourg Accountholders in accordance with the relevant clearing system's rules and procedures.

9.2 *Payments subject to applicable laws*

Payments in respect of the Securities are subject in all cases to (i) any fiscal or other laws and regulations applicable thereto in any jurisdiction, 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, official interpretations thereof, or any law implementing an intergovernmental approach thereto.

9.3 *Payment initiation*

Where payment is to be made by transfer to a Sterling account, payment instructions (for value the due date, or if that is not a Business Day, for value the first following day which is a Business Day) will be initiated, and, where payment is to be made by cheque, the cheque will be mailed on the last day on which the Principal Paying Agent is open for business preceding the due date for payment or, in the case of payments of principal where the relevant Certificate has not been surrendered at the specified office of the Registrar, on a day on which the Principal Paying Agent is open for business and on which the relevant Certificate is surrendered.

9.4 *Delay in payment*

Securityholders will not be entitled to any interest or other payment for any delay after the due date in receiving the amount due on a Security if the due date is not a Business Day, if the Securityholder is late in surrendering or cannot surrender its Certificate (if required to do so) or if a cheque mailed in accordance with Condition 9.1(ii) arrives after the due date for payment.

9.5 *Non-payment days*

If any date for payment in respect of any Security is not a payment day, the Securityholder shall not be entitled to payment until the next following payment day nor to any interest or other sum in respect of such postponed payment. In this Condition 9, "**payment day**" means a day (other than a Saturday or a Sunday) on which banks and foreign exchange markets are open for business in the place in which the specified office of the Registrar is located and, where payment is to be made by transfer to a Sterling account, a day which is a Business Day.

10 Taxation

All payments by or on behalf of the Society in respect of the Securities shall be made free and clear of, and without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature ("**Taxes**") imposed, levied, collected, withheld or assessed by or on behalf of the United Kingdom or any political subdivision or any authority thereof or therein having power to tax, unless the withholding or deduction of the Taxes is required by law. If any such withholding or deduction for or on account of any Taxes is required by law, the Society will, in respect of payments of interest (but not of principal or any other amount), pay such additional amounts ("**Additional Amounts**") as may be necessary in order that the net amounts received by the Securityholders after the withholding or deduction shall equal the amounts which would have been receivable in respect of the Securities in the absence of the withholding or deduction; except that no Additional Amounts shall be payable in relation to any payment in respect of any Securities:

(a) by or on behalf of a Securityholder who is liable to such taxes, duties, assessments or governmental charges in respect of such Securities by reason of it having some connection with the United Kingdom other than the mere holding of the Securities;

(b) where (in the case of a payment of interest on repayment) the relevant Certificate is surrendered for payment more than 30 days after the Relevant Date except to the extent that the Securityholder would have been entitled to such Additional Amounts on surrendering such Certificate for payment on the last day of such period of 30 days; or

(c) where the Securityholder is able to avoid such withholding or deduction by complying, or procuring that a third party complies with, any applicable statutory requirements or by making, or procuring that any third party makes, a declaration of non-residence or other similar claim for exemption to any tax authority.

For a description of applicable United Kingdom taxation considerations, see "United Kingdom Taxation" in this Offering Circular.

11 Prescription

Any amounts payable in respect of the Securities in respect of which no cheque has been cashed and no payment claimed shall cease to be payable after 12 years from the appropriate Relevant Date and shall revert to the Society.

12 Replacement of Certificates

A Securityholder who has lost a Certificate shall immediately give notice in writing of such loss to the Society at its principal office and to the Registrar at its specified office. If a Certificate is damaged or alleged to have been lost, stolen or destroyed, a new Certificate representing the same Securities shall be issued by the Registrar, on behalf of the Society, to the Securityholder upon request, subject to delivery up of the old Certificate or (if alleged to have been lost, stolen or destroyed) subject to compliance with such conditions as to evidence and indemnity as the Society and the Registrar may think fit and to payment of any exceptional expenses of the Society and the Registrar incidental to its investigation of the evidence of such alleged loss, theft or destruction. The duplicate Certificate will be made available at the offices of the Registrar.

13 Succession and transfers

13.1 *Amalgamation or transfer under section 93 or 94 of the Act*

Upon an amalgamation by the Society with another building society under section 93 of the Act or a transfer of all or substantially all of its engagements to another building society under section

94 of the Act, the Securities shall become deferred shares in the amalgamated or transferee building society, as appropriate (the "**Resulting Society**", and references herein to the "**Society**" shall thereafter be construed accordingly), without any alteration in their terms except as follows.

Each Securityholder will be deemed automatically, by virtue of its holding of any Securities, to have irrevocably authorised and instructed that if the Society, in its sole discretion, considers that, as a result of such amalgamation or transfer, it is necessary to amend the provisions of these Conditions relating to Conversion of the Securities pursuant to Condition 8 in order to give effect to or preserve substantially the economic effect of Conversion for the Securityholders, the Society may, upon not less than 15 days' notice to Securityholders in accordance with Condition 17 but without the consent or approval of the Securityholders, make such amendments to Condition 8 (and/or any other provision of these Conditions relating to Conversion and any consequent changes) which, as determined by the Society in consultation with an Independent Adviser appointed by the Society for such purpose:

(a) give effect to and preserve substantially the economic effect of a Conversion of the Securities for the Securityholders; and

(b) do not result in the terms of the Securities becoming materially less favourable to the Securityholders,

and provided that the following shall be preserved in all material respects: (1) the ranking of the Securities, (2) the Interest Rate on the Securities from time to time, the Interest Payment Dates and the provisions regarding discretionary and mandatory cancellation of interest, (3) any existing rights under the Conditions to any accrued interest which has not been satisfied or cancelled in accordance with the Conditions (but subject always to the right of the Society subsequently to cancel such accrued interest in accordance with the terms of the Securities), (4) the repayment rights and obligations of the Society (provided that the first optional repayment date may, if (but only to the extent) so required in order for the Securities to continue to qualify as Tier 1 Capital of the Society, be later than the first optional repayment date applicable to the Securities under Condition 7.2, in which case such later date shall be the earliest possible date permitted under the Capital Regulations for the Securities to continue to qualify as Tier 1 Capital of the Society) and (5) compliance with the prevailing Capital Regulations and requirements of the Regulator in relation to Tier 1 Capital (but, for the avoidance of doubt, not common equity tier 1 capital); and provided further that a certificate to the effect of the foregoing shall have been signed by two authorised signatories of the Society and given to the Registrar on behalf of the Securityholders.

A brief summary of any key changes to the terms of the Securities will, not later than the time at which notice is given to members of resolutions to be proposed to approve the relevant amalgamation or transfer, be available for inspection by the Securityholders at the principal office of the Society and the specified office of the Registrar.

It may be necessary, upon an amalgamation by the Society with another building society or a transfer of all or substantially all of its engagements to another building society as envisaged by Condition 13.1, for the terms of the Securities as regards Conversion to be amended in certain respects, for example if any CCDS then outstanding cease to exist or are themselves amended in any relevant respect as a result of, or in connection with, such amalgamation or transfer. The Society anticipates that, in particular, changes may be required if CCDS are no longer the appropriate instrument to deliver to Securityholders upon Conversion of the Securities, or if any adjustments to the Conversion Price (and/or the adjustment provisions relating thereto) are appropriate. With a view to minimising the financial impact of any such amendments on Securityholders, it is the intention of the Society that, if and to the extent that the Society has control over such matters, any such amendments to the Conditions of the Securities should be limited to the minimum necessary in order to ensure that the Conversion provisions remain appropriate in the context of the Resulting Society and preserve substantially the economic effect

of Conversion for the Securityholders. Whilst the Society anticipates that any conversion of the Securities following such amalgamation or transfer would be a conversion into CCDS or instruments of the Resulting Society which are similar to the CCDS, there can be no assurance that this will be the case.

13.2 ***Transfer of business under section 97 of the Act***

Upon a transfer by the Society of the whole of its business in accordance with section 97 of the Act to a company (a "**Successor Entity**", which expression includes a subsidiary of a mutual society as referred to in the Building Societies (Funding) and Mutual Societies (Transfers) Act 2007 as amended (the "**Mutual Societies Transfers Act**")) the Successor Entity will, in accordance with section 100(2)(a) of the Act, as from the vesting date, assume a liability to each holder of Securities and each Securityholder will be deemed automatically, by virtue of its holding of any Securities, to have irrevocably authorised and instructed that such liability shall be subordinated (a "**Subordinated Deposit**") and shall be applied on the vesting date (or as soon as reasonably practicable thereafter) in paying up undated subordinated bonds (the "**Bonds**") in a principal amount equivalent to the nominal amount of the Securities held by such Securityholder immediately prior to such transfer, and such Bonds shall, at the option of the Society (or the Successor Entity) in its sole discretion, be issued or transferred either:

(a) to (or to the order of) the relevant Securityholder; or

(b) (if the Successor Entity is part of a prudentially regulated group and is not the ultimate holding entity for the purposes of prudential consolidation of such group) to a Qualifying Parent in consideration for such Qualifying Parent issuing or transferring to (or to the order of) the relevant Securityholder a principal amount of Qualifying Parent Securities equivalent to the nominal amount of the Securities held by such Securityholder immediately prior to the business transfer.

If the Society (or the Successor Entity) elects option (b) above, each Securityholder will be deemed automatically, by virtue of its holding of any Securities, to have (i) irrevocably authorised and instructed that the Bonds paid up out of the Subordinated Deposit assumed by the Successor Entity to such Securityholder shall be issued or transferred to the Qualifying Parent in consideration for the issue or transfer to (or to the order of) such Securityholder of the relevant principal amount of Qualifying Parent Securities, and (ii) waived and released all rights and claims against the Society and the Successor Entity it would otherwise have in respect of such Subordinated Deposit and the relevant Bonds paid up therefrom (but without prejudice to its right to have the relevant principal amount of Qualifying Parent Securities issued or delivered to (or to the order of) such Securityholder).

A brief summary of the key terms and conditions of (i) if the Society (or the Successor Entity) elects option (a) above, the Bonds or (ii) if the Society (or the Successor Entity) elects option (b) above, the Qualifying Parent Securities, will, not later than the time at which notice is given to members of resolutions to be proposed to approve such transfer (or if no such resolutions will be proposed, as soon as reasonably practicable following the time at which notice is given to members of the proposed transfer), be available for inspection by the Securityholders at the principal office of the Society and the specified office of the Registrar at that time and, subject as provided above, will be determined by the Society in its absolute discretion.

The Bonds

If the Society (or the Successor Entity) elects option (b) above (such that Securityholders will be entitled to receive Qualifying Parent Securities), the terms of the Bonds shall be agreed between the Society (or the Successor Entity) and the Qualifying Parent.

If the Society or the Successor Entity elects option (a) above (such that Securityholders will be entitled to receive Bonds), the Bonds (1) may be issued directly or indirectly by the Successor Entity, (2) shall rank junior to any subordinated deposit or subordinated bonds issued by the Successor Entity in respect of Senior Obligations of the Society and senior to any subordinated deposit, subordinated bonds and/or shares issued by the Successor Entity in respect of Junior Obligations of the Society, (3) shall bear the same Interest Rate from time to time and Interest Payment Dates as the Securities and shall preserve the provisions regarding discretionary and mandatory cancellation of interest, (4) shall have the same repayment rights and obligations as the Securities (provided that the first optional repayment date may, if (but only to the extent) so required in order for the Bonds to qualify as Tier 1 Capital of the Successor Entity, be later than the first optional repayment date applicable to the Securities under Condition 7.2, in which case such later date shall be the earliest possible date permitted under the Capital Regulations for the Bonds to qualify as Tier 1 Capital of the Successor Entity) and (5) shall preserve any existing rights under the Conditions to any accrued interest which has not been satisfied or cancelled in accordance with the Conditions (but subject always to the right of the Successor Entity subsequently to cancel such accrued interest in accordance with the terms of the Bonds).

Furthermore, if the Society or the Successor Entity elects option (a) above (such that Securityholders will be entitled to receive Bonds), the terms of the Bonds will, to the fullest extent permitted by applicable law and regulation, (a) be such as to comply with the prevailing Capital Regulations and requirements of the Regulator in relation to Tier 1 Capital (but, for the avoidance of doubt, not common equity tier 1 capital); and (b) (subject to Condition 8.3) include such changes and additional provisions as are deemed necessary by the Society to give effect to and preserve substantially the economic effect of the Conditions of the Securities and are not materially less favourable to the Securityholders than the Conditions of the Securities, all as determined by the Society in consultation with an Independent Adviser appointed by the Society for such purpose; provided that a certificate to the effect of the foregoing shall have been signed by two authorised signatories of the Society and given to the Registrar on behalf of the Securityholders.

Qualifying Parent and Qualifying Parent Securities

As used herein:

"**Qualifying Parent**" means a company, mutual society or other entity incorporated in the United Kingdom or the European Economic Area which (a) holds, directly or indirectly, all or substantially all of the ordinary voting shares of the Successor Entity, (b) is a credit institution, a financial holding company or a mixed financial holding company (in each case, within the meaning of the Capital Regulations) and (c) is the ultimate holding entity (or an intermediate holding entity) representing the point of prudential consolidation for the prudential group (or a prudential sub-group) of which the Successor Entity forms part; and

"**Qualifying Parent Securities**" means securities which:

(1) are issued directly or indirectly by a Qualifying Parent and rank pari passu with other additional tier 1 capital instruments (if any) of the Qualifying Parent then in issue;

(2) bear the same Interest Rate from time to time and Interest Payment Dates as the Securities and shall have the same (or substantially the same) provisions regarding discretionary and mandatory cancellation of interest;

(3) have the same (or substantially the same) repayment rights and obligations as the Securities (provided that the first optional repayment date may, if (but only to the extent) so required in order for the Qualifying Parent Securities to qualify as Tier 1 Capital of the Qualifying Parent (or its prudential group or sub-group), be later than the first optional repayment date

applicable to the Securities under Condition 7.2, in which case such later date shall be the earliest possible date permitted under the Capital Regulations for the Qualifying Parent Securities to qualify as Tier 1 Capital of the Qualifying Parent (or its prudential group or sub-group));

(4) shall be issued upon terms which have the economic effect of preserving any existing rights under the Conditions to any accrued interest which has not been satisfied or cancelled in accordance with the Conditions (but subject always to the right of the Qualifying Parent subsequently to cancel such accrued interest in accordance with the terms of the Qualifying Parent Securities); and

(5) to the fullest extent permitted by applicable law and regulation:

(a) comply with the prevailing Capital Regulations and requirements of the Regulator (or, if different, the prevailing prudential and capital adequacy requirements and rules applicable to the Qualifying Parent) in relation to Tier 1 Capital (but, for the avoidance of doubt, not common equity tier 1 capital); and

(b) (subject to Condition 8.3) include such changes and additional provisions as are deemed necessary by the Society, the Successor Entity or the Qualifying Parent (as the case may be) to give effect to and preserve substantially the economic effect of the Conditions of the Securities and are not materially less favourable to the Securityholders than the Conditions of the Securities,

all as determined by the Society in consultation with an Independent Adviser appointed by the Society for such purpose; provided that a certificate to the effect of the foregoing shall have been signed by two authorised signatories of the Society, the Successor Entity or the Qualifying Parent and given to the Registrar on behalf of the Securityholders.

13.3 ***Successions and transfers where the resulting entity does not have a viable convert-to instrument***

Upon an amalgamation or transfer in accordance with Condition 13.1 or 13.2, the Society shall use reasonable commercial endeavours to procure that the Securities (or any instrument issued in replacement thereof as a result of a transfer in accordance with Condition 13.2) would, in the event of a Conversion Trigger (or a similar conversion trigger in any such replacement instrument, which, for the avoidance of doubt, may relate to the common equity tier 1 ratio of the Successor Entity or the Qualifying Parent or their respective group or sub-group, as the case may be, and references in this Condition 13.3 to the Conversion Trigger shall be construed accordingly) occurring immediately following such amalgamation or transfer, convert into a common equity tier 1 capital instrument (whether or not carrying voting rights at general meetings of the issuing entity) of the Resulting Society or, as the case may be, the Successor Entity or Qualifying Parent (or any parent thereof). If, immediately prior to such amalgamation or transfer, there are in issue any CCDS of the Society that are (with the consent or approval of the Society) listed or admitted to trading on any stock exchange or market, the Society (or, as the case may be, the Resulting Society, the Successor Entity or the Qualifying Parent) will use reasonable endeavours to procure that, as soon as is reasonably practicable in the circumstances, the class of common equity tier 1 capital instruments into which the Securities (or, as the case may be, the instruments issued in replacement thereof as a result of a transfer in accordance with Condition 13.2) will, upon the occurrence of a Conversion Trigger, convert (the "**Conversion Instrument**") is listed or admitted to trading on a regularly operating, regulated stock exchange or other market; *provided that* there shall be no obligation on the Society, the Resulting Society, the Successor Entity or the Qualifying Parent (as the case may be) to obtain any such listing or admission to trading if the applicable Conversion Instrument is not issued by the ultimate holding entity of the group resulting from the amalgamation or transfer, as the case may be.

If, however, notwithstanding such reasonable commercial endeavours, the Society is unable to procure that the Securities (or any instrument issued in replacement thereof as a result of a transfer in accordance with Condition 13.2) would, following a Conversion Trigger, convert into a Conversion Instrument, then (notwithstanding any provision of Condition 13.1 or 13.2) if a Conversion Trigger occurs on or after the effective date of such amalgamation or transfer, the outstanding Securities (or any replacement instruments as aforesaid) shall not be subject to Conversion but instead will be subject to permanent write-down. Accordingly, upon the occurrence of such Conversion Trigger, the full nominal amount of such Securities (or replacement instruments) will automatically be written down to zero, each Security (or replacement instrument) will be cancelled, the Securityholders will be automatically deemed to have irrevocably waived their right to receive, and will no longer have any rights against the Society, Resulting Society, Successor Entity or Qualifying Parent (as applicable) with respect to, repayment of the aggregate nominal amount of the Securities (or replacement instruments) so written down or delivery of any instrument as a result of such write-down, and all accrued but unpaid interest and any other amounts payable on each Security (or replacement instrument) will be cancelled, irrespective of whether such amounts have become due and payable prior to the occurrence of the Conversion Trigger.

13.4 ***Undertakings***

(a) The Society undertakes to procure that any amalgamation or transfer referred to in Condition 13.1 or 13.2 will comply with the provisions of Condition 13.1 or, as the case may be, 13.2. The Society undertakes to use all reasonable endeavours to enter into such agreements, and to take such other reasonable steps, as are necessary to give effect to the provisions of this Condition 13 (including, but not limited to, the appointment, if applicable, of an Independent Adviser).

(b) In connection with any amalgamation by the Society with another building society under section 93 of the Act or a transfer of all or substantially all of its engagements to another building society under section 94 of the Act as provided in Condition 13.1, the Society:

(i) shall, and shall use all reasonable endeavours to procure that the Resulting Society shall, comply with the rules of any competent authority, stock exchange and/or quotation system by or on which the Securities are, for the time being, listed, traded and/or quoted with the consent or approval of the Society; and

(ii) shall pay, or shall use all reasonable endeavours to ensure that Resulting Society pays, any taxes, stamp duty reserve taxes and capital, stamp, issue and registration duties payable in the United Kingdom arising on the issue and initial delivery of such deferred shares (if applicable), but will not pay (and each Securityholder as to itself will be required to pay) any other taxes, stamp duty reserve taxes and capital, stamp, issue and registration duties arising on or following the issue and initial delivery of such deferred shares (if applicable) pursuant to Condition 13.1.

(c) In connection with any transfer by the Society of the whole of its business in accordance with section 97 of the Act to a company as provided in Condition 13.2, the Society:

(i) shall, and shall use all reasonable endeavours to procure that the Successor Entity and/or the Qualifying Parent (as applicable) shall, comply with the rules of any competent authority, stock exchange and/or quotation system by or on which the Securities are, for the time being, listed, traded and/or quoted with the consent or approval of the Society;

(ii) shall use all reasonable endeavours to ensure that the terms upon which its business is transferred to the Successor Entity shall require the Successor Entity or Qualifying Parent (as applicable) to pay (or, in the absence of any such term of

transfer, shall itself pay), any stamp duties, stamp duty reserve taxes and similar capital, stamp, issue and registration duties payable in the United Kingdom arising on the issue and initial delivery of the Bonds or Qualifying Parent Securities (as the case may be), but will not pay (and each Securityholder as to itself will be required to pay) any other taxes, stamp duties, stamp duty reserve taxes and capital, stamp, issue and registration duties arising on or following the issue and initial delivery of the Bonds or Qualifying Parent Securities (as applicable) pursuant to Condition 13.2; and

(iii) shall use all reasonable endeavours to ensure that the terms upon which its business is transferred to the Successor Entity shall require the Successor Entity or Qualifying Parent to procure that the Bonds or, as the case may be, the Qualifying Parent Securities are (A) where the Securities were listed and/or admitted to trading immediately prior to the aforesaid transfer to the Successor Entity, listed and/or admitted to trading (as the case may be) on the same stock exchange (or, if this is wholly impracticable, admitted to trading on another internationally recognised stock exchange or securities market chosen by the Successor Entity or Qualifying Parent) and (B) admitted to, and traded in, the same clearing system or systems as the Securities or, if this is wholly impracticable, in such other clearing system or systems determined by the Successor Entity or Qualifying Parent, provided that this does not materially prejudice the holders of the Bonds or, as the case may be, the Qualifying Parent Securities.

14 Variations of the Conditions and the Rules

14.1 *Variation of the Conditions*

Subject as provided in Condition 13, these Conditions may only be varied by the Society (a) with the consent in writing of the Securityholders in accordance with Condition 15.7 or with the sanction of a resolution passed at a separate meeting of the Securityholders held in accordance with Condition 15 and as further described in the Agency Agreement and (b) in compliance with prevailing Capital Regulations at such time (including, if then required, obtaining the prior consent of the Regulator).

14.2 *Variation of the Rules*

(a) These Conditions do not limit the rights of members of the Society to amend the Rules.

(b) The Society undertakes not to initiate any amendment to the Rules that is both (a) inconsistent with the provisions of these Conditions and (b) materially prejudicial to the interests of the Securityholders in that capacity.

(c) Any amendment to the Rules or any resolution of members of the Society (in either case whether such amendment or resolution is initiated by the Society or by one or more of its members) shall not:

(i) limit any rights of any Securityholder to bring an action against the Society for breach of contract in circumstances where the Society is in breach of these Conditions, and furthermore any Securityholder shall be entitled to bring an action against the Society as if there had been a breach of contract (such that a Securityholder may sue for a liquidated sum equal to its loss) in circumstances where an amendment has been made to the Rules or any resolution of members of the Society has been passed which is materially prejudicial to the holders of the Securities as a class and which would have been a breach of these Conditions had such amendment been instituted by the Society; or

(ii) afford the Society any defence to any claim made in any action referred to under (i) above,

provided, however, that no Securityholder shall be entitled to bring an action against the Society under (i) above, and the Society shall have a valid defence to any such action under (ii) above, if holders of the Securities have at any time passed a resolution in accordance with Condition 15 (whether at a duly convened meeting of the Securityholders or by way of written resolution) approving, ratifying and/or consenting to the relevant amendment to the Rules or the relevant member resolution, as the case may be.

15 Meetings of the Securityholders

15.1 *Convening the meeting, notice and quorum*

The Society alone may at any time convene a separate meeting of the Securityholders. Every meeting shall be held at such place as the Society may nominate.

At least 21 clear days' notice, specifying the hour, date and place of the meeting shall be given to the Securityholders entered in the Securities Register 35 days prior to the date specified for the meeting, such notice to be given in accordance with Condition 17. The notice shall specify generally the nature of the business to be transacted at the meeting and the terms of any resolution to be proposed to alter these Conditions.

Any person (who may, but need not, be a Securityholder) nominated in writing by the Society shall be entitled to take the chair at every meeting but if no nomination is made or if at any meeting the person nominated shall not be present within 15 minutes after the time appointed for holding the meeting, the Securityholders present shall choose one of their number who is present to be chairman.

At any meeting one or more persons present in person or by proxy and holding or representing in aggregate not less than one-third of the nominal amount of the Securities for the time being outstanding shall form a quorum for the transaction of business and no business (other than the choosing of a chairman) shall be transacted at any meeting unless the requisite quorum shall be present at the commencement of business. Every question submitted to the meeting (other than the choosing of a chairman which will be decided by a simple majority) shall be decided by a poll of one or more persons present and holding Securities or being proxies and representing in aggregate not less than three-quarters of the nominal amount outstanding of the Securities represented at such meeting voting in favour of such question.

15.2 *Adjournment*

If within half an hour after the time appointed for any meeting a quorum is not present, the meeting shall stand adjourned for such period, being not less than 14 days nor more than 42 days and at such place as may be appointed by the chairman and if at the adjourned meeting a quorum shall not be present within half an hour from the time appointed for the adjourned meeting, the Securityholders present in person or by proxy at the adjourned meeting shall be a quorum.

Notice of any adjourned meeting shall be given in the same manner as notice of an initial meeting but as if 10 were substituted for 21 in Condition 15.1.

The chairman may with the consent of (and shall if directed by a resolution of) the meeting adjourn any meeting from time to time and from place to place but no business shall be transacted at any adjourned meeting other than business left unfinished or not reached at the meeting from which the adjournment took place.

15.3 ***Conduct of business of the meeting***

A poll shall be taken in such manner as the chairman directs and the result of the poll shall be deemed to be the resolution of the meeting.

Any director or officer of the Society and its professional advisers may attend and speak at any meeting of the Securityholders. Save as provided above, no person shall be entitled to attend and speak nor shall any person be entitled to vote at any such meeting unless it is a Securityholder or is a proxy thereof.

At any class meeting of the Securityholders, every Securityholder or proxy who is present shall have one vote in respect of each £1 in outstanding nominal amount of the Securities held or, as the case may be, in respect of which it is a proxy.

15.4 ***Proxies***

A Securityholder entitled to attend a meeting of the Securityholders:

(a) may appoint one person (whether or not a Securityholder) as its proxy to attend and, on a resolution, to vote at such meeting in its place; and

(b) may direct the proxy how to vote at the meeting.

A proxy shall be appointed in the manner provided in Schedule 3 to the Agency Agreement.

15.5 ***Effect of resolution***

Any resolution passed at a meeting duly convened and held in accordance with these provisions shall be binding upon all the Securityholders whether or not present at the meeting and whether or not voting and each of them shall be bound to give effect to the resolution accordingly and the passing of any resolution shall be conclusive evidence of the circumstances justifying the passing of the resolution.

15.6 ***Other matters***

Minutes of all resolutions and proceedings at every meeting shall be made and duly entered in books to be from time to time provided for that purpose by the Society and any minutes purporting to be signed by the chairman of the meeting at which resolutions were passed or proceedings had shall be conclusive evidence of the matters contained in the minutes and until the contrary is proved every meeting in respect of the proceedings of which minutes have been so made and signed shall be deemed to have been duly held and convened and all resolutions passed or proceedings had to have been duly passed or had.

The accidental omission to send notice of a separate meeting or to send any document required to be sent with the notice or otherwise before the meeting to, or the non-receipt of notice of a separate meeting or any such document as aforesaid by, any person entitled to receive notices or documents shall not invalidate the proceedings at that meeting.

15.7 ***Written resolution***

A resolution may also be passed, without the need for a meeting of Securityholders, by way of a resolution in writing signed by or on behalf of Securityholders holding in aggregate not less than three-quarters in nominal amount of the Securities then outstanding. Such written resolution may be contained in one document or several documents in like form each signed by or on behalf of one or more such Securityholders. Any written resolution passed shall be binding upon all the

Securityholders whether or not signing the written resolution and each of them shall be bound to give effect to the resolution accordingly.

15.8 ***Notice***

Notice of any resolution duly passed by the Securityholders, whether at a meeting of Securityholders or by written resolution, shall be given in accordance with Condition 17 by the Society within 14 days of the passing of the resolution, provided that the non-publication of the notice shall not invalidate the resolution.

16 Further issues

The Society shall be at liberty from time to time without the consent of the Securityholders to create and issue further deferred shares either:

(a) ranking *pari passu* in all respects (or in all respects save for the first payment of interest thereon) and so that the same shall be consolidated and form a single series with any series of outstanding deferred shares of the Society (including the Securities); or

(b) upon such other special terms of issue as the Society may at the time of issue determine.

17 Notices

All notices regarding the Securities shall be valid if sent by post to the Securityholders at their respective addresses in the Securities Register. Any such notice shall be deemed to have been given on the second Business Day following the mailing of such notice. For so long as the Securities are listed or admitted to trading on any stock exchange, such notice shall also be made available in any other manner required by the rules of such stock exchange then in effect.

18 Governing law and rights of third parties

The rights and obligations in respect of the Securities and any non-contractual obligations arising out of, or in connection with, the Securities are governed by, and shall be construed in accordance with, English law.

No person shall have any right to enforce any term or condition of the Securities under the Contracts (Rights of Third Parties) Act 1999.

Subject to the provisions of section 1 of the Courts and Legal Services Act 1990, section 85 of and Schedule 14 to the Act provide that no court other than the High Court in England shall have jurisdiction to hear and determine disputes between a building society and a member or a representative of a member in that capacity in respect of any rights or obligations arising from the rules of a building society or the Act. Pursuant to section 1 of the Courts and Legal Services Act 1990, the High Court and County Courts Jurisdiction Order 1991 No. 724 has been made which empowers the High Court to transfer cases over which it has jurisdiction to the County Court.

19 Definitions

For the purpose of these Conditions:

"**Accounting Currency**" means Sterling or such other primary currency used in the presentation of the Society's accounts from time to time;

"**Accrual Date**" has the meaning ascribed thereto in Condition 5.1;

"**Act**" means the Building Societies Act 1986, as amended;

"**Additional Amounts**" has the meaning ascribed in Condition 10;

"**Assets**" means the unconsolidated gross assets of the Society as shown in its latest published audited balance sheet, but adjusted for subsequent events in such manner as the directors of the Society may determine;

"**Benchmark Gilt Reset Reference Rate**" means, in relation to a Reset Period, the gross redemption yield (as calculated by the Principal Paying Agent on the basis set out by the United Kingdom Debt Management Office in the paper "*Formulae for Calculating Gilt Prices from Yields*", page 5, Section One: *Price/Yield Formulae "Conventional Gilts"; Double dated and Undated Gilts with Assumed (or Actual) Redemption on a Quasi-Coupon Date* (published 8 June 1998, as amended or updated from time to time) or if such basis is no longer in customary market usage at such time, as calculated by the Principal Paying Agent in accordance with generally accepted market practice at such time) on a semi-annual compounding basis (rounded up (if necessary) to four decimal places) of the Benchmark Gilt in respect of that Reset Period, with the price of the Benchmark Gilt for the purpose of determining the gross redemption yield being the arithmetic average (rounded (if necessary) to the nearest 0.001 per cent. (0.0005 per cent. being rounded upwards)) of the bid and offered prices of such Benchmark Gilt quoted by the Reset Reference Banks at 11.00 a.m. (London time) on the Reset Determination Date in respect of such Reset Period on a dealing basis for settlement on the next following Benchmark Gilt Dealing Day. Such quotations shall be obtained by or on behalf of the Society and provided to the Principal Paying Agent. If at least four quotations are provided, the Benchmark Gilt Reset Reference Rate will be determined by reference to the rounded arithmetic mean of the quotations provided, eliminating the highest quotation (or, in the event of equality, one of the highest) and the lowest quotation (or, in the event of equality, one of the lowest). If only two or three quotations are provided, the Benchmark Gilt Reset Reference Rate will be determined by reference to the rounded arithmetic mean of the quotations provided. If only one quotation is provided, the Benchmark Gilt Reset Reference Rate will be determined by reference to the rounded quotation provided. If no quotations are provided, the Benchmark Gilt Reset Reference Rate will be deemed to be equal to the Benchmark Gilt Reset Reference Rate determined for the immediately preceding Reset Period or, in the case of the first Reset Period, 0.485 per cent. For these purposes:

"**Benchmark Gilt**" means, in respect of a Reset Period, such United Kingdom government security customarily used in the pricing of new issues with a similar tenor having a maturity date on or about the last day of such Reset Period as the Principal Paying Agent, with the advice of the Reset Reference Banks, may determine to be appropriate (following any then-current guidance published by the International Capital Market Association at the relevant time, if applicable); and

"**Benchmark Gilt Dealing Day**" means a day on which the London Stock Exchange plc (or such other stock exchange on which the Benchmark Gilt is at the relevant time listed) is ordinarily open for the trading of securities;

"**Business Day**" means a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealings in foreign exchange and foreign currency deposits) in London;

"**Calculation Agent**" means any calculation agent which may be appointed by the Society from time to time to determine any adjustment or adjustments to the Conversion Price;

"**Calculation Amount**" means £1,000 in nominal amount of Securities;

"**Capital Regulations**" means any requirements of United Kingdom law or contained in the regulations, requirements, guidelines and policies of the Regulator (whether or not having the force of law), or (for so long as the same are applicable to the Society) of the European Parliament and the European Council, then in effect in the United Kingdom relating to capital adequacy and prudential supervision and applicable to the Society (or, where the context admits in Condition 13, any rules, requirements,

guidelines and policies relating to capital adequacy and prudential supervision and applicable to the Successor Entity or the Qualifying Parent, as the case may be, in its jurisdiction of incorporation);

"**Capital Requirements Directive**" means Directive (2013/36/EU) of the European Parliament and of the Council on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms dated 26 June 2013, as amended or replaced from time to time (including, without limitation, by Directive (EU) 2019/878);

"**Capital Requirements Regulation**" means Regulation (EU) No 575/2013 of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms (and amending Regulation (EU) No 648/2012) dated 26 June 2013, as amended or replaced from time to time (including, without limitation, by Regulation (EU) 2019/876);

"**CCDS**" means Core Capital Deferred Shares of the Society;

"**CCDS holder**" means a holder of a CCDS;

"**Certificate**" has the meaning ascribed thereto in Condition 2.3;

"**CET1 Ratio**" means, at any time, each of (a) the ratio of Common Equity Tier 1 of the Society as at such time to the Risk Weighted Assets of the Society as at the same time, in each case calculated by the Society (or by the Regulator or its appointed agent) on an individual consolidated basis (as referred to in Article 9 of the Capital Requirements Regulation or any equivalent or similar law, rule or provision of the Capital Regulations then applicable to the Society) and expressed as a percentage; and (b) the ratio of Common Equity Tier 1 of the Society as at such time to the Risk Weighted Assets of the Society as at the same time, in each case calculated by the Society (or by the Regulator or its appointed agent) on a consolidated basis in accordance with the then-prevailing Capital Regulations and with Condition 8.11, and expressed as a percentage;

"**Common Equity Tier 1**" means, as at any time, the sum, expressed in the Accounting Currency, of all amounts that constitute common equity tier 1 capital of the Society as at such time, less any deductions from common equity tier 1 capital required to be made as at such time, in each case as calculated by the Society (or by the Regulator or its appointed agent) on an individual consolidated basis (as referred to in Article 9 of the Capital Requirements Regulation or any equivalent or similar law, rule or provision of the Capital Regulations then applicable to the Society) or, as the context requires, a consolidated basis, in each case in accordance with the then-prevailing Capital Regulations and with Condition 8.11;

"**common equity tier 1 capital**" has the meaning given to it (or any successor term) in the Capital Regulations from time to time;

"**Conversion**" has the meaning ascribed thereto in Condition 8.1;

"**Conversion Date**" means the date specified as such in the relevant Conversion Notice, which shall be not later than one month (or such shorter period as the Regulator may require) from the occurrence of the Conversion Trigger;

"**Conversion Notice**" has the meaning ascribed thereto in Condition 8.2;

"**Conversion Price**" has the meaning ascribed thereto in Condition 8.4;

"**Conversion Trigger**" has the meaning ascribed thereto in Condition 8.1;

"**Converted**" has the meaning ascribed thereto in Condition 8.1;

"**Current Market Price**" means, in respect of a CCDS as at a particular date, the volume weighted average price of the CCDS observed over the 5 dealing days ending on the dealing day immediately preceding such date; provided that if the Society or, if applicable, its appointed Calculation Agent is not able to obtain sufficient information over such 5 dealing days from a relevant screen page on Bloomberg, Reuters or another information service of recognised standing in order to determine such volume weighted average price, it shall request at least four reference banks (selected by the Society or, if appointed, the Calculation Agent in consultation with the Society) to provide it with quotations for (or a best estimate of quotations for) prices of trades in a representative amount of CCDS for each of the 5 dealing days. If one or more of the reference banks provide such quotations, the Current Market Price shall be the arithmetic mean of such quotations as determined by the Society or, if appointed, the Calculation Agent; if no such reference bank provides such quotations, the Current Market Price shall be determined in good faith by an Independent Adviser in its sole discretion;

"**Day-Count Fraction**" has the meaning ascribed thereto in Condition 5.1;

"**dealing day**" means:

(i) (unless (ii) below applies) a day on which the London Stock Exchange plc is open for business and on which the CCDS may be dealt in (other than a day on which the London Stock Exchange plc is scheduled to or does close prior to its regular weekday closing time); or

(ii) if, at the relevant time, the CCDS are not admitted to the London Stock Exchange plc but are listed or admitted to trading on another stock exchange or market, a day on which such other stock exchange or market (or, if listed or admitted to trading on more than one stock exchange or market, the stock exchange or market which represents the primary listing or admission) is open for business and on which the CCDS may be dealt in (other than a day on which such stock exchange or market is scheduled to or does close prior to its regular weekday closing time);

"**Distributable Items**" has the meaning ascribed thereto in Condition 6.2;

"**Distribution**" means any distribution on, or repayment in part of the nominal amount of a CCDS, in each such case, made by the Society in cash (whatever the currency);

"**Effective Date**" has the meaning ascribed thereto in Condition 8.5(c);

"**Excluded Dissolution**" means each of (i) a winding up or dissolution of the Society for the purpose of a reconstruction, union, transfer, merger or amalgamation or the substitution in place of the Society of a successor in business the terms of which have previously been approved by the Securityholders in accordance with Condition 15, and (ii) a dissolution of the Society by virtue of the amalgamation and transfer provisions set out in sections 93, 94 and 97 of 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;

"**Existing PIBS**" means those outstanding of the Society's (i) £400,000,000 5.769 per cent. Permanent Interest Bearing Shares (originally issued by the Society in 2004); (ii) £125,000,000 6.25 per cent. Permanent Interest Bearing Shares (originally issued by the Portman Building Society in 2003); (iii) £60,000,000 7.25 per cent. Permanent Interest Bearing Shares (originally issued by the Portman Building Society in 2001); (iv) £100,000,000 7.859 per cent. Permanent Interest Bearing Shares (originally issued by the Society in 2000); and (v) £10,000,000 Floating Rate Permanent Interest Bearing Shares (originally issued by the Cheshire Building Society in 1994);

As at the Issue Date, approximately £209,000,000 in aggregate nominal amount of the Existing PIBS remains outstanding.

"**Financial Year**" means the financial year of the Society (being the one-year period in respect of which it prepares annual audited financial statements) from time to time, which as at the Issue Date runs from (and including) 5 April in one calendar year to (but excluding) the same date in the immediately following calendar year;

"**First Reset Date**" means 20 June 2025;

"**FSMA**" means the Financial Services and Markets Act 2000, as amended;

"**Further Securities**" has the meaning given in the preamble to these Conditions;

"**Independent Adviser**" means an independent financial institution or independent adviser (which, for the avoidance of doubt, may (but need not) be any appointed Calculation Agent) with appropriate expertise in the context of its appointment, appointed by the Society at its own expense;

"**Initial Interest Rate**" has the meaning ascribed thereto in Condition 5.4;

"**Interest Payment**" means, in respect of an Interest Payment Date, the amount of interest which, subject to Conditions 4.4, 6 and 8, is payable for the relevant Interest Period in accordance with Condition 5;

"**Interest Payment Date**" means 20 June and 20 December in each year, starting on (and including) 20 December 2019;

"**Interest Period**" means the period beginning on (and including) the Issue Date and ending on (but excluding) the first Interest Payment Date and each successive period beginning on (and including) an Interest Payment Date and ending on (but excluding) the next succeeding Interest Payment Date;

"**Interest Rate**" means the Initial Interest Rate and/or the applicable Reset Interest Rate, as the case may be;

"**Issue Date**" means 24 September 2019;

"**Junior Obligations**" has the meaning ascribed thereto in Condition 4.2;

"**Liabilities**" means the unconsolidated gross liabilities of the Society as shown in its latest published audited balance sheet, but adjusted for contingent liabilities and for subsequent events in such manner as the directors of the Society may determine;

"**Margin**" means 5.390 per cent. per annum;

"**Maximum Distributable Amount**" has the meaning ascribed thereto in Condition 6.2;

"**Parity Obligations**" has the meaning ascribed thereto in Condition 4.2;

"**Pillar 3 Disclosures**" means the Society's published disclosures with respect to (amongst other things) its capital resources and capital adequacy pursuant to the requirements under Part Eight of the Capital Requirements Regulation (including under the rules and guidelines promulgated thereunder) or pursuant to such other equivalent or similar capital adequacy disclosure requirements as may be applicable to the Society from time to time pursuant to the Capital Regulations;

"**Principal Paying Agent**" means Citibank, N.A., London Branch or such other principal paying agent appointed by the Society from time to time in respect of the Securities;

"**Qualifying Parent**" has the meaning given in Condition 13.2;

"**Qualifying Parent Securities**" has the meaning given in Condition 13.2;

"**Record Date**" has the meaning ascribed thereto in Condition 9.1(ii);

"**Reference Date**" means the later of (i) the Issue Date and (ii) the latest date (if any) on which any Further Securities have been issued pursuant to Condition 16(a);

"**Registrar**" means Citibank, N.A., London Branch or such other registrar appointed by the Society from time to time in respect of the Securities;

"**Regulator**" means the UK Prudential Regulation Authority and any successor or replacement thereto or such other authority in the United Kingdom or elsewhere having primary responsibility for the prudential oversight and supervision of the Society;

"**Regulatory Event**" has the meaning ascribed thereto in Condition 7.4;

"**Relevant Date**" means whichever is the later of: (a) the date on which the payment in question first becomes due; and (b) if the full amount payable has not been received by the Registrar, the Principal Paying Agent or another registrar or agent on or prior to such due date, the date on which (the full amount having been so received) notice to that effect has been given to the Securityholders;

"**Reset Date**" means the First Reset Date and each date that falls five, or an integral multiple of five, years following the First Reset Date;

"**Reset Determination Date**" means, in relation to a Reset Period, the day falling two Business Days prior to the Reset Date on which such Reset Period commences;

"**Reset Interest Rate**" means, in relation to a Reset Period, the sum of: (a) the Benchmark Gilt Reset Reference Rate in relation to that Reset Period; and (b) the Margin;

"**Reset Period**" means each period from (and including) any Reset Date and ending on (but excluding) the next Reset Date;

"**Reset Reference Banks**" means five leading gilt dealers in the principal interbank market relating to pounds sterling selected by the Society and notified in writing to the Principal Paying Agent;

"**Risk Weighted Assets**" means, as at any time, the aggregate amount, expressed in the Accounting Currency, of the risk weighted assets of the Society as at such time, as calculated by the Society (or by the Regulator or its appointed agent) on an individual consolidated basis (as referred to in Article 9 of the Capital Requirements Regulation or any equivalent or similar law, rule or provision of the Capital Regulations then applicable to the Society) or, as the context requires, a consolidated basis, in each case in accordance with the then-prevailing Capital Regulations and with Condition 8.11;

"**Securities**" means the £600,000,000 Reset Perpetual Contingent Convertible Additional Tier 1 Capital Securities of the Society and includes any Further Securities, and "**Security**" shall be construed accordingly;

"**Securityholder**" means a person whose name and address is entered in the Securities Register as the holder of Securities or, in the case of a joint holding of Securities, the first person whose name is entered in the Securities Register in respect of the joint holding of the Securities (and the term "**holder**" in respect of a Security shall be construed accordingly);

"**Securities Register**" means the records of the Society maintained by the Registrar for the purposes of the Securities;

"**Senior Obligations**" has the meaning ascribed thereto in Condition 4.2;

"**Society Conversion Benefits**" has the meaning ascribed thereto in Condition 1.3;

"**Solvency Test**" has the meaning ascribed thereto in Condition 4.4;

"**Sterling**" or "**£**" means British pounds sterling;

"**Subsidiary**" means each subsidiary undertaking (as defined under section 119 of the Act) for the time being of the Society;

"**Taxes**" has the meaning ascribed thereto in Condition 10;

"**Tax Event**" has the meaning ascribed thereto in Condition 7.3;

"**Tax Law Change**" has the meaning ascribed thereto in Condition 7.3;

"**Tier 1 Capital**" has the meaning given to it (or any successor term) in the Capital Regulations from time to time; and

"**Tier 2 Capital**" has the meaning given to it (or any successor term) in the Capital Regulations from time to time.

SUMMARY OF PROVISIONS RELATING TO THE SECURITIES WHILE REPRESENTED BY THE GLOBAL CERTIFICATE

The following is a summary of the provisions to be contained in the Agency Agreement and in the Global Certificate which will apply to, and in some cases modify the effect of, the Conditions while the Securities are represented by the Global Certificate:

1. EXCHANGE OF THE GLOBAL CERTIFICATE AND REGISTRATION OF TITLE

Registration of title to Securities in a name other than that of the initial nominee for Euroclear and Clearstream, Luxembourg (such initial nominee, the "**Nominee**") will be permitted only if both Euroclear and Clearstream, Luxembourg (or, if the Securities are then cleared in one or more other clearing systems, all of the clearing systems in which the Securities are then cleared) are closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or announce an intention permanently to cease business or do in fact do so and no alternative clearing system satisfactory to the Registrar is available. References herein to "**Accountholders**" are to each person (other than Euroclear and Clearstream, Luxembourg) who is for the time being shown in the records of Euroclear and/or Clearstream, Luxembourg as the holder of a particular number of Securities (in which regard any certificate or other document issued by that clearing system as to the number of Securities standing to the account of any person shall be conclusive and binding for all purposes).

Thereupon, the Nominee (acting on the instructions of one or more of the Accountholders (as defined above)) may give notice to the Society of its intention to exchange the Global Certificate for definitive Certificates on or after the Exchange Date (as defined below).

On or after the Exchange Date, the Nominee may surrender the Global Certificate to, or to the order of, the Registrar. In exchange for the Global Certificate, the Registrar will deliver, or procure the delivery of, definitive Certificates in minimum nominal amounts of £200,000 and integral multiples of £1,000 in excess thereof printed in accordance with any applicable legal and stock exchange requirements and in or substantially in the form set out in the Agency Agreement. On exchange of the Global Certificate, the Society will procure that it is cancelled and, if the Nominee so requests, returned to the Nominee together with any relevant definitive Certificates.

For these purposes, "**Exchange Date**" means a day specified in the notice requiring exchange falling not less than 10 days after that on which such notice is given and being a day on which banks are open for general business in the place in which the specified office of the Registrar is located.

Accountholders will have no right to require delivery of definitive certificates representing their interests in any Securities except in the circumstances described in this paragraph 1.

2. PAYMENTS

Payments due in respect of Securities represented by the Global Certificate shall be made by the Registrar or the Principal Paying Agent (or otherwise by or on behalf of the Society) to, or to the order of, the Nominee. A record of each payment made in respect of Securities represented by the Global Certificate will be endorsed on the appropriate part of the schedule to the Global Certificate by or on behalf of the Registrar, which endorsement shall be *prima facie* evidence that such payment has been made in respect of the Securities.

Payment by the Registrar or the Principal Paying Agent (or otherwise by or on behalf of the Society) to or to the order of the Nominee as aforesaid will discharge the obligations of the Society in respect of the relevant payment under the Securities. Each Accountholder must look solely to Euroclear or Clearstream, Luxembourg, as the case may be, for its share of each payment made to or to the order of the Nominee, and each Beneficial Owner (as defined below) who is not itself an Accountholder must look solely to the relevant

Accountholder through which it holds its Securities for its share of each payment made to such Accountholder.

3. TRANSFERS

Transfers of book-entry interests in the Securities will be effected through the records of Euroclear and Clearstream, Luxembourg and their respective participants in accordance with the rules and procedures of Euroclear and Clearstream, Luxembourg and their respective direct and indirect participants.

4. NOTICES

For so long as the Securities are represented by the Global Certificate and such Global Certificate is held on behalf of Euroclear and/or Clearstream, Luxembourg, notices may be given to the Securityholders by delivery of the relevant notice to Euroclear and/or Clearstream, Luxembourg (as the case may be) for communication to the relevant Accountholders and Beneficial Owners in substitution for despatch and service as required by Condition 17. Such notice shall be deemed to have been given on the date of delivery of the notice to Euroclear and/or Clearstream, Luxembourg (as the case may be) for such communication.

5. MEETINGS; MEMBERSHIP RIGHTS WHILST THE SECURITIES ARE HELD THROUGH EUROCLEAR AND/OR CLEARSTREAM, LUXEMBOURG

Save as permitted in paragraph 1 above, investors will hold their Securities directly or indirectly through Accountholders with Euroclear and Clearstream, Luxembourg and will not themselves be entered on the Securities Register as holder of the relevant Securities. Instead, the holder entered on the Securities Register for such Securities shall be the Nominee and the relevant Accountholder's holding of interests in such Securities will be recorded in the internal records of Euroclear and/or Clearstream, Luxembourg, as the case may be.

This means that Accountholders and Beneficial Owners will not themselves be members of the Society and, accordingly, will not be entitled to vote at any general meeting of the members of the Society or in a postal ballot or to any other similar membership rights. Instead, the members' rights attaching to the Securities held through Euroclear and Clearstream, Luxembourg will be held by the Nominee. Such Nominee will be entered in the Securities Register as the holder of such Securities, and will be entitled to exercise the voting and other members' rights attributable to such Securities. Each member of the Society has one vote at any general meeting of the members of the Society. Accordingly, the Nominee will be entitled to exercise one vote at any such meeting, regardless of the nominal amount of Securities held by it (and regardless also of the size and number of other relevant investments or interests (if any) conferring membership rights which the Nominee may have in the Society).

Given the difficulty of casting the single vote at a general meeting of the members of the Society in a manner which reflects the views of all Beneficial Owners of Securities and the insignificance of that vote in the context of all the votes which may be cast by members of the Society, the Nominee has informed the Society that it does not intend to exercise its vote insofar as it relates to its holding of Securities.

At a separate meeting of Securityholders only, the Nominee will have one vote per £1,000 in nominal amount of Securities and will act on the instructions of one or more Accountholders (who in turn will act on the direct or indirect instructions of Beneficial Owners holding through such Accountholders) received by it through Euroclear or Clearstream, Luxembourg, as the case may be. The Agency Agreement contains provisions relating to the convening and conduct of such meetings of Securityholders. Those provisions include arrangements pursuant to which a Beneficial Owner will be able (i) to attend any such meeting and cast the votes attributable to its Securities, or (ii) otherwise to direct (including by way of electronic consents) how the votes attributable to its Securities shall be cast at such meeting. For these purposes, notwithstanding the provisions of Condition 15.4(a), the Nominee shall be entitled to appoint one or more persons as its proxy or proxies to attend, speak and, on a resolution, vote at a meeting of Securityholders. Each proxy shall be appointed in respect of such nominal amount of Securities specified by the Nominee

(provided that no two proxies can be appointed in respect of the same Securities). The Agency Agreement also contains provisions for the passing of resolutions, without the need for a meeting of Securityholders, by way of electronic consents communicated through the electronic communications systems of the relevant clearing system(s) by or on behalf of Securityholders holding in aggregate not less than three-quarters of the number of Securities for the time being outstanding.

As Accountholders and Beneficial Owners will not be members of the Society, they will also not be entitled to any Society Conversion Benefits (including any rights to windfall payments) arising on a demutualisation or merger of the Society. Any Society Conversion Benefits arising on a demutualisation or merger of the Society will belong instead to the Nominee, as the registered holder of the Securities in the Securities Register. The Nominee will, on or prior to the issue date of the Securities, irrevocably agree to assign to The Nationwide Foundation (or other charities nominated by The Nationwide Foundation) any Society Conversion Benefits.

As used herein:

"**Beneficial Owner**" means each person who for the time being holds any interests in Securities for its own account (and not only as custodian or an Intermediary for another person) (and "**Beneficial Owners**" shall be construed accordingly); and

"**Intermediary**" means each of Euroclear and Clearstream, Luxembourg and each Accountholder, custodian, broker or other intermediary who for the time being holds interests in Securities (as custodian or otherwise) for the account of another person (and "**Intermediaries**" shall be construed accordingly).

6. CONVERSION

Any Conversion of Securities held in Euroclear or Clearstream, Luxembourg will be effected in accordance with the procedures set out in the Conversion Notice referred to in Condition 8.2 and otherwise in accordance with the relevant procedures of Euroclear and Clearstream, Luxembourg.

7. PRESCRIPTION

Claims against the Society in respect of any amounts payable in respect of the Securities represented by the Global Certificate will be prescribed after 12 years from the due date and shall revert to the Society.

8. PURCHASE AND CANCELLATION

Cancellation of any Securities purchased and surrendered for cancellation in accordance with Condition 7 will be effected by a corresponding reduction in the nominal amount of Securities represented by the Global Certificate.

9. RECORD DATE

For so long as all Securities are held in Euroclear and Clearstream, Luxembourg, the Record Date shall be determined in accordance with Condition 9, provided that the words "fifteenth day" shall be deemed to be replaced with "ICSD Business Day" (where "**ICSD Business Day**" means a day on which Euroclear and Clearstream, Luxembourg are open for business).

10. DIRECT RIGHTS

Subject as follows, upon a breach of contract by the Society (which shall, for the purposes of this paragraph "*Direct Rights*", include a Securityholder becoming entitled to bring any action against the Society as contemplated by Condition 14.2) or upon a winding-up or dissolution of the Society, each Beneficial Owner at the time of such breach (each a "**Relevant Person**") shall (for the purpose only of bringing an action for such breach of contract or, as the case may be, claiming in the winding-up or dissolution of the Society in

accordance with Condition 4) acquire against the Society all those rights ("**Direct Rights**") which such Relevant Person would have had if, at the time of the relevant breach of contract, such Relevant Person had been identified in the Securities Register as the registered holder of such nominal amount of Securities (the "**Underlying Securities**") as is equal to the nominal amount of CCDS which are credited to such Relevant Person's securities account with Euroclear or Clearstream, Luxembourg (or, as the case may be, with any Intermediary) at such time.

The Relevant Persons will acquire such Direct Rights only in the circumstances and for the purposes described in the preceding paragraph and for no other purpose. Direct Rights will be acquired automatically at the time of the relevant breach of contract, without the need for any further action on behalf of any person. The Society's obligation hereunder shall be a separate and independent obligation to each Relevant Person by reference to each Underlying Securities of such Relevant Person, and the Society agrees that a Relevant Person may assign such Direct Rights in whole or in part.

The records of Euroclear and Clearstream, Luxembourg and (subject to the following proviso) each Intermediary (as applicable) shall be conclusive evidence of the identity of the Relevant Persons and the nominal amount of Underlying Securities credited to the securities account of each Relevant Person; provided that the records of an Intermediary shall be conclusive evidence of the identity of any Relevant Persons only if accompanied by records of (i) the Accountholder (and any other Intermediary) through which such Intermediary holds the relevant Securities and (ii) Euroclear or Clearstream, Luxembourg (as applicable), which records when taken together evidence a chain of ownership linking the records of such Intermediary and the records of Euroclear or Clearstream, Luxembourg (as applicable). For these purposes, a statement issued by Euroclear and/or Clearstream, Luxembourg (as applicable) and/or a relevant Intermediary (as applicable) stating the name of the Relevant Person to which the statement is issued and the nominal amount of Underlying Securities credited to the securities account of such Relevant Person as at the opening of business on the first business day following the time of the relevant breach of contract, shall be conclusive evidence of the records of the relevant clearing system or (subject to the foregoing proviso) such Intermediary (as the case may be) at the time of the relevant breach of contract.

11. EUROCLEAR AND CLEARSTREAM, LUXEMBOURG

References in the Global Certificate and this summary to Euroclear and Clearstream, Luxembourg shall be deemed to include references to any other clearing system approved for the purposes of the Securities by the Registrar.

12. SUCCESSION AND TRANSFERS

Upon a transfer by the Society of the whole of its business to a Successor Entity in accordance with Condition 13.2, the Nominee will (unless otherwise agreed as part of the terms of the transfer at the relevant time) direct that the Bonds or, as the case may be, Qualifying Parent Securities to be delivered to it shall instead be delivered directly to (or to the order of) the Beneficial Owners as if those Beneficial Owners had, at the vesting date, held in definitive form the nominal amount of Securities corresponding to their book-entry interest in the Securities at that time.

CERTAIN PROVISIONS OF THE ACT AND REQUIREMENTS OF THE SUPERVISORY AUTHORITY

1. AMALGAMATION

Section 93 of the Act permits a building society to amalgamate with one or more building societies by establishing a building society as their successor. Amalgamation requires a shareholding members' resolution passed by the shareholding members of each amalgamating society and a borrowing members' resolution (each as defined in Schedule 2 to the Act) of the borrowing members of each amalgamating society, as well as confirmation of amalgamation by the PRA or its successor (the "**Supervisory Authority**"). The Act provides that on the date specified by the Supervisory Authority all of the property, rights and liabilities (which, in the case of the Society, would include the Securities) of each of the societies shall by virtue of the Act be transferred to and vested in the successor, whether or not otherwise capable of being transferred or assigned. In the event of such an amalgamation by the Society with another building society, the Securities would, pursuant to their terms, become deferred shares in the successor without any alteration of their terms, except as set out in Condition 13.1.

2. TRANSFER OF ENGAGEMENTS

Section 94 of the Act permits a building society to "transfer its engagements to any extent" to another building society which undertakes to fulfil such engagements. A transfer requires approval by a shareholding members' resolution and a borrowing members' resolution of each of the transferor society and the transferee society. However, the resolutions of the transferee society are not required if the Supervisory Authority consents to the transfer proceeding by a resolution of its Board of Directors only. The transfer must be confirmed by the Supervisory Authority. The Act provides that on the date specified by the Supervisory Authority and to the extent provided in the instrument of transfer, the property, rights and liabilities of the transferor society shall by virtue of the Act be transferred to and vested in the transferee society, whether or not otherwise capable of being transferred or assigned. In the event of a transfer of all or part of the property and/or all or some of the liabilities (including the Securities) of the Society, the Securities would, pursuant to their terms, become deferred shares in the transferee without any alteration of their terms, except as set out in Condition 13.1.

3. TRANSFER OF BUSINESS

Sections 97 to 102D of the Act permit a building society to transfer the whole of its business to a company which has been specially formed by the society wholly or partly for the purpose of assuming and conducting the society's business in its place or is an existing company which is to assume and conduct the society's business in its place. The transfer must be approved by a requisite shareholding members' resolution, in accordance with Schedule 2, paragraph 30(2)-(5) of the Act, passed by shareholding members and by a borrowing members' resolution passed by borrowing members. The society must also obtain the confirmation of the Supervisory Authority to the transfer and its terms. If the Supervisory Authority confirms the transfer, then the Act provides that on the vesting date (as defined in the Act) all of the property, rights and liabilities (which would include the Securities) of the transferor society, whether or not capable of being transferred or assigned, shall by virtue of the Act and in accordance with the transfer regulations (then in force) be transferred to and vested in the successor. Pursuant to section 100(2)(a) of the Act, the Securities would be converted into deposits with the successor. Condition 13.2 provides that the deposits will be subordinated and will be applied in the subscription of perpetual subordinated bonds of the successor, subject as provided therein.

4. MUTUAL SOCIETY TRANSFERS

The Act (as modified by the Mutual Societies (Transfers) Order 2009) permits a building society to transfer the whole of its business to the subsidiary of another mutual society (as defined in section 3 of the Mutual Societies Transfers Act). The successor subsidiary must be duly authorised to carry on its deposit-taking

business by the Supervisory Authority. The terms of the transfer to the relevant subsidiary must include provision for making membership of the holding mutual (or membership of the parent undertaking of such holding mutual) available to every qualifying member of the building society and to every person who, after the transfer, becomes a customer of the company, and the membership of the holding mutual (or such parent undertaking) must be on terms no less favourable than those enjoyed by existing members of the holding mutual (or such parent undertaking, as the case may be).

A transfer of business to a subsidiary of another mutual society requires approval by members and confirmation by the PRA. The member approval thresholds require a shareholding members' resolution to be passed by a minimum of 75 per cent. of shareholding members qualified to vote and voting on the resolution and a borrowing members' resolution to be passed by more than 50 per cent. of borrowing members qualified to vote and voting on the resolution.

As in the case of a transfer of business, the Securities would be converted into deposits with the successor. Condition 13.2 provides that the deposits will be subordinated and will be applied in the subscription of perpetual subordinated bonds of the successor, subject as provided therein.

5. DIRECTED TRANSFERS

The Act confers power on the Supervisory Authority, if it considers it expedient to do so in order to protect the investments of shareholders or depositors, to direct a building society to transfer all of its engagements to one or more other building societies or to transfer its business to an existing company. The Financial Services Act 2012 also amended the Act to extend this power of direction to a transfer of a building society's business to an existing or specially formed company that is a subsidiary of another mutual society (as defined in section 3 of the Mutual Societies Transfers Act). Where any such direction is made, the Supervisory Authority may also, if it considers it expedient to do so in order to protect the investments of shareholders or depositors, direct that such transfer may proceed on the basis of a resolution of the board of directors of the building society, without the need for member approval.

In the case of a directed transfer, the Securities would be treated in the same way as on a transfer of engagements, transfer of business to a company or transfer to the subsidiary of another mutual as applicable for the purposes of Conditions 13.1 and 13.2.

6. GENERAL

The Society may, as a result of an amalgamation, transfer of engagements or transfer of business as described above, be replaced as the principal debtor, under all or some of the Securities, by an entity substantially different in nature from the Society at present or with a substantially different capital position. In all cases, the confirmation of the Supervisory Authority is required before any such change can take place.

USE OF PROCEEDS

The net proceeds of the issue of the Securities (estimated to be approximately £594,000,000) will be used by the Society to strengthen its regulatory capital base and for general business purposes consistent with the Society's principal purpose as a UK building society.

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 £238.3 billion of assets as at 4 April 2019. The Society has approximately 675 branches and over 15 million customers as at the date of this Offering Circular.

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

- residential mortgage loans;
- retail savings; and
- personal current accounts.

In addition, the Society maintains a portfolio of debt securities for its own account for liquidity management purposes.

The Society is currently the fourth largest household savings provider and the second largest provider of residential mortgages in the United Kingdom, with estimated market shares of approximately 10.1 per cent. (as calculated by the Society based on BoE data) and 13.1 per cent. (according to BoE data), respectively as at 4 April 2019.

As a mutual organisation, the Society is managed for the benefit of its members, who are primarily its current account, retail savings and residential mortgage customers. 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. 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.

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.

The Society benchmarks its products and performance against a group of leading retail banks operating in the UK (Barclays, Halifax, HSBC, Lloyds Bank, NatWest, Santander UK and TSB) and seeks to offer more consistent long-term good value on savings and prime mortgages than is offered by this peer group. In addition to returning value to members through its competitive products, the Society believes that it provides better service to its customers than that offered by most of its competitors and this is a key component of the Society's strategy.

Strategy

As a mutual, owned by its members, the Society is driven by a strong sense of social purpose, based on its history and founding principles. As the Society exists primarily for the benefit of its members, the Society

organises itself around their needs, as the Society sets out in its Society "Plan" at the start of the financial year. 'Building society, nationwide' describes its purpose, which is to grow the Society in a sustainable way that benefits its members, customers, colleagues, and society more generally.

The Society's strategy is founded upon a rigorous evaluation of its 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.

The Society's 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 intends to continue to offer a broad range of financial services that complement its core products of mortgage, savings and current accounts.

The Society's core purpose is 'building society, nationwide' and it has defined the following five interconnected cornerstones which support its purpose and strategy. Its strategic targets and key performance indicators have also been reviewed and amended in line with the strategy and are re-assessed at least annually to ensure they remain relevant to the Society in achieving the required outcomes.

Built to last

The Society believes that its members want it to keep their money safe by being secure and dependable and that they want the Society 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 and technology.

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 would meet its objective for sustainable capital strength. This range is based on its current assumptions around the size of the mortgage market. This range will vary from time to time, and whether the Society's profitability falls within or outside this range in any given financial year or period will depend on a number of external and internal factors, including conscious decisions to return value to members or to make investments in the business. It 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.

The Society's financial performance will be supported by a renewed focus on efficiency. The Society intends to continue to put its members and their money first by making careful choices on how best to allocate its resources. Whilst cost income ratio has previously been the Society's main measure of efficiency, the Society introduced sustainable cost savings targets in 2017. As at 4 April 2019 the Society reported that it was on course to deliver its target of £500 million of sustainable cost savings by 2023. This is expected 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.

Focusing on operational resilience, the Society announced in September 2018 an additional £1.3 billion investment in its technology estate over the next five years, taking its total strategic investment to £4.1 billion over the "Plan" period.

Building PRIDE

PRIDE is the internal symbol of the Society'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.
- Excelling at relationships.

And in delivering on these values, the Society equips its people by:

- developing its leaders and high potential talent to enable a more empowered and agile workforce that is able to get things done;
- accessing key skills, talent and new thinking by creating new roles and opening sites in what it considers to be the right locations; and
- simplifying reward and recognition structures to ensure its people feel valued for their contribution.

The Society is, and intends to remain, one of the UK's best places to work, which is in keeping with its mutual ethos of care, which is the backbone behind the service its members receive. Having engaged and enabled employees is a key source of competitive advantage as the Society strives to have industry leading levels of customer satisfaction and grow its business. The Society measures engagement and enablement through ViewPoint, conducted by Karin & Box.

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.

The Society believes that delivering leading levels of member satisfaction is a key point of differentiation to its peers and an important driver in helping to grow its membership. The Society measures its service satisfaction performance using an independent survey conducted by market research experts, GfK. Its performance is currently benchmarked against a peer group of high street competitors with a main current

account market share greater than 4 per cent. To ensure that the Society continues to focus on its members' satisfaction and to further support the Society in its core purpose: 'building society, nationwide', the Society set a strategic target for the year ending 31 March 2019 to be first for customer satisfaction with a lead of at least 4 per cent. over the next best competitor within its peer group.

With the significant consumer shift towards the use of digital channels, the Society aims to have 60 per cent. of its members using its mobile app in the future.

Building thriving membership

The Society can help its members to achieve their goals, whether home ownership or saving for the future and the Society will deliver real value to its membership by:

- delivering a membership proposition that recognises loyalty by rewarding its most committed members; and
- diversifying income growth in its existing markets and through entry into new segments.

Growing its base of committed members allows the Society to bring the benefits of mutuality to a wider population. A committed member is one who holds at least two engaged membership products with the Society (current account, £1,000 in savings or a mortgage with a balance greater than £5,000) or one engaged membership product plus either a personal loan, credit card, home insurance, or an investment and protection product. The Society aims to have 4 million committed members by 2022.

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 Society intends to strengthen its position as one of the most respected organisations in the UK by:

- leading by example, being an influencer and having a bolder voice on the things that matter most to UK society;
- creating a more emotional member connection;
- leveraging data to provide personalised member insight and propositions; and
- aligning the Society's social investment agenda with its purpose of 'building society, nationwide', through a focus on housing initiatives.

The Society's brand is the sum of how its members and others perceive them. A strong brand, effective both in digital and traditional media, is essential to attract new members. In the year ended 4 April 2019, the Society was joint top for prompted brand consideration and first for trust (2.5 per cent. ahead of its nearest peer)[1]. For the year ending 4 April 2020, the Society's strategic targets are to continue to lead in both measures.

History and Development

Building societies have existed in the United Kingdom for over 200 years. From the outset, they were community-based, cooperative organisations created to help people purchase homes. The main characteristic of building societies is their mutual status, meaning that they are owned by their members, who are primarily retail savings and residential mortgage customers. The Society's origins date back to the Southern Co-

[1] Source: Nationwide Brand and Advertising tracker – compiled by Independent Research Agency, based on all consumer responses, (3 months ending March 2019). Financial brands included Nationwide, Barclays, Co-operative Bank, First Direct, Halifax, HSBC, Lloyds, NatWest, TSB and Santander. For 'prompted brand consideration' data includes consumer responses of 'first choice' or 'seriously considered' brand.

operative Permanent Building Society (1884). Over time, this entity merged with similar organisations to create Nationwide Building Society.

Over the past 30 years, many building societies have merged with other building societies or demutualised and transferred their businesses to existing or specially formed banks. Further, in one case, a society transferred its business to the subsidiary of another mutual organisation. 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.

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. 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. In order 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 which they might otherwise have received as a result of a future demutualisation. As such, a majority of members would not benefit personally from either a demutualisation or takeover of Nationwide, significantly lessening the incentive to vote for demutualisation or any proposed takeover of the Society by a competitor which is incorporated as a limited liability company.

The 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, 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.

During the year ended 4 April 2017 and in line with its core purpose of 'building society, nationwide', the Society decided to exit its offshore deposit taking business in the Isle of Man and also announced the closure of its Republic of Ireland branch operations. In addition, the Society ceased to advance new commercial loans as it has determined that the commercial lending business is no longer a good fit with its core purpose.

Group Structure and Principal Subsidiaries

The Society is the principal holding entity of the Group and the main business of the Group is conducted by the Society. The Society's interests in its principal subsidiary undertakings, all of which are consolidated, as at 4 April 2019 are set out below:

100% held subsidiary undertakings	**Nature of business**
Nationwide Syndications Limited	Syndicated lending
The Mortgage Works (UK) plc	Centralised mortgage lender
Derbyshire Home Loans Limited	Centralised mortgage lender
E-Mex Home Funding Limited	Centralised mortgage lender
UCB Home Loans Corporation Limited	Centralised mortgage lender

All the above subsidiary undertakings are limited liability companies which are registered in England and Wales and operate in the UK and, with the exception of Nationwide Syndications Limited, they are all regulated entities.

Nationwide Syndications Limited is a wholly owned mortgage lender specialising in syndicated commercial loans to registered social landlords ("**RSL**"). Nationwide Syndications Limited has ceased to offer new lending. As at 4 April 2019, it held mortgage assets of £0.5 billion.

The Mortgage Works (UK) plc ("**TMW**") is a wholly owned centralised mortgage lending subsidiary, specialising mainly in residential BTL lending to individuals. As at 4 April 2019, it had mortgage assets of £31.6 billion. In the year ended 4 April 2019, TMW's gross lending was £5 billion, representing 13.7 per cent. of its total gross residential mortgage lending in that year.

Each of Derbyshire Home Loans Limited, E-Mex Home Funding Limited ("**E-Mex**") and UCB Home Loans Corporation Limited ("**UCB**") is a wholly owned subsidiary that has ceased to offer new lending.

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

The table below provides details of these entities as at 4 April 2019.

Group undertaking	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

Business of the Society

Retail business

The Society's retail business aims to offer its customers a full range of personal financial services products comprising residential mortgage lending, a range of savings products as well as investments and general insurance solutions, both directly and through intermediary sales channels.

Residential mortgage lending

The vast majority of the lending portfolio of the Society consists of United Kingdom residential mortgage loans to individuals. These loans are secured on the residential property of the borrower on terms which allow for repossession and sale of the property if the borrower breaks the terms and conditions of the loan. This lending can take the form of either prime residential lending (where the borrower is the owner and occupier of the mortgaged property and meets the Society's credit requirements for prime lending) or specialist residential lending (which are loans advanced to borrowers who intends to let the mortgage property). 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 2019, the Group was the second largest mortgage lender in the United Kingdom (as measured by total loans outstanding and calculated by the Society based on BoE data and publicly available financial information). 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 70 to 80 per cent. of customers when they reach the end of a product.

The table below shows a breakdown of the Society's prime and specialist residential mortgage lending outstanding balances as at 4 April 2019.

	As at 4 April 2019 (*£ billion*)
Prime	151
Specialist	34
of which:	
BTL	32
Other[(1)]	2

(1) Other includes self-certified, near prime and subprime lending discontinued in 2009.

The Society offers specialist UK residential mortgage lending to individuals, comprising lending to private landlords (BTL) and other non-conforming lending. As at 4 April 2019, the Society's outstanding specialist UK residential mortgage lending to individuals was £34 billion. The specialist residential mortgage balance is made up of advances made through its specialist lending brands, including TMW. Its outstanding specialist lending loans were advanced primarily in the BTL and self-certification markets. New specialist lending is restricted to BTL through TMW with the Society having withdrawn from the self-certified lending market in 2009.

The Society's specialist mortgages continue to perform well with cases three months or more in arrears representing only 0.82 per cent. of the total mortgage book as at 4 April 2019, which compares favourably to the UK Finance (UKF) industry average, which is inclusive of prime lending, of 0.78 per cent. as at 4 April 2019.

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.

The table below shows the geographical distribution of the Society's United Kingdom residential mortgage loans as at 4 April 2019:

	UK residential mortgage lending to individuals as at 4 April 2019 *%*
Region	
Greater London	34
Central England	18
Northern England	15
South East England (excluding London)	13
South West England	10
Scotland	6
Wales	3
Northern Ireland	1
Total	**100**

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 the BMR and the SMR are variable rates set at its discretion, except that the 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.

Total gross mortgage lending during the year ended 4 April 2019 increased to £36.4 billion (4 April 2018: £33.0 billion), of which gross prime lending increased to £151.4 billion (4 April 2018: £143.9 billion) and gross specialist lending increased to £34.5 billion (4 April 2018: £33.2 billion). This represents one of the Society's strongest gross lending performances in the first half of a financial year, reflecting the competitively priced products and good long-term value that the Society offers its members. Net mortgage lending at 4 April 2019 was £8.6 billion (4 April 2018: £5.8 billion) largely driven by a rise in redemptions due to sustained market competition.

The LTV profile of new lending, weighted by value, remained at 71 per cent. as at 4 April 2019 compared to 4 April 2018. The indexed LTV for the whole residential portfolio increased to 58 per cent. as at 4 April 2019 compared to 56 per cent. as at 4 April 2018 on a value basis.

The Group believes that asset quality has remained strong as a result of our continued prudent approach to lending. The proportion of mortgage accounts three months or more in arrears has reduced to 0.43 per cent. as at 4 April 2019, which compares favourably with the UK Finance average of 0.79 per cent. as at the same date.

The table below shows the Group's residential mortgage loans which are three months or more in arrears as a percentage of its total residential mortgage loans as at each of 4 April 2019, 4 April 2018 and 4 April 2017 and the UK Finance average.

	As at 4 April		
	2019	**2018**	**2017**
		%	
Prime	0.35	0.34	0.36
Specialist	0.82	0.83	0.89
Group.....	**0.43**	**0.43**	**0.45**
UK Finance (UKF) industry average	0.78	0.81	0.91

Source: audited financial statements for the years ended 4 April 2019, 2018 and 2017.

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. 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 decreased to 35 per cent. during the year ended 4 April 2019 with 65 per cent. to experienced buyers (compared to 38 per cent. of residential mortgage advances to first-time buyers and 62 per cent. to experienced buyers during the year ended 4 April 2018).

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.

Consumer lending

The Society engages in consumer lending, which accounted for 2 per cent. of its total loan assets as at 4 April 2019. Almost all of its consumer loans are made on an unsecured basis.

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 assesses all unsecured consumer loans to ensure they remain affordable alongside any mortgage.

Savings

The great majority of the Society's retail savings are in the form of UK retail member deposits. In addition, the Society has historically accepted offshore deposits and deposits which do not convey member status. As at 4 April 2019, the Society had UK retail member deposits of £154 billion. UK retail member deposits represented 68 per cent. of the Society's liabilities and reserves as at 4 April 2019.

The Society provides a wide range of retail savings products that may be repayable on demand or on notice and which may pay a variable or fixed rate of interest. On most retail savings products, 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 savings 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.

Its retail business also manages a range of business savings accounts that are offered to UK-domiciled small- and medium-sized enterprises, including companies, housing associations, charities and educational organisations. The Society 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 at 4 April 2019, its business savings balances were £3.4 billion.

Personal banking

The Society has a growing base of current account customers, which it estimates accounts for an 8 per cent. share of main standard and packaged current accounts in the United Kingdom. The Society opened 794,000 new current accounts in the year ended 4 April 2019 (year ended 4 April 2018: 816,000) maintaining market share of openings. One in five of all switchers moved to Nationwide, increasing market share of switchers to 21.5 per cent. (year ended 4 April 2018: 15.8 per cent.).

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 had overall balances of £1.8 billion at 4 April 2019.

Other retail services

The Society's other retail services principally comprise insurance business and investment business.

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 and distributes insurance products of other companies.

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;
- landlord insurance;
- term income protection insurance, replacing up to 60 per cent. of gross income in case of unemployment; 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 years ended 4 April 2019, 4 April 2018 and 4 April 2017, it earned £65 million, £76 million and £81 million, respectively, from 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.

Investments

The Society's income from the distribution of protection and investments was £63 million for the year ended 4 April 2019.

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 and mobile banking; 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 2019, it had approximately 675 branches of Nationwide Building Society in the United Kingdom.

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 continues to make significant investment in transforming its products and delivery channels through the implementation of new systems and organisational structures and to meet consumer expectations of digital banking.

Call centres

The 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.

Internet and mobile banking

The Society first launched an internet banking service in 1997 and has continued to update the 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. The Society also allows customers to access and carry out transactions on their accounts using its mobile and tablet applications.

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's customers have access to its own network of ATMs (1,371 as at 4 April 2019), as well as access to ATMs in the United Kingdom through the LINK network and world-wide through the Visa network.

Commercial business

The Society's commercial portfolio comprises loans which have been provided to meet the funding requirements of RSL, CRE investors and private finance initiatives ("**PFI**"). As at 4 April 2019, this portfolio accounted for 4 per cent. of total loans and advances to customers. Following a strategic review of the commercial lending business, the Society concluded that the CRE and PFI lending is no longer a good fit with its core purpose. The strategy for CRE and PFI lending is now to hold and actively manage the portfolios to maturity in line with contractual terms. The RSL portfolio was reopened in September 2018.

The table below shows the amount and types of loans in the commercial lending portfolio as at 4 April 2019.

	As at 4 April 2019	
	(*£ billions*)	(*% of total commercial loans*)
Registered social landlords	6.0	73
Commercial real estate	1.4	17
Private finance initiative	0.8	10
Total	**8.2**	**100**

RSL loans are made to UK registered social landlords, are secured on residential property and differ significantly from other loans secured on real property. UK registered social landlords provide affordable housing supported by Government grants. This portfolio historically has carried a lower risk than the Society's other commercial lending activities, and there are currently no arrears of three months or more in the RSL portfolio. To date, the Society has not needed to raise any loss provisions against this portfolio.

CRE portfolio is well diversified by industry type and by borrower, with no significant exposure to development finance.

PFI loans are secured on cash flows from Government-backed contracts such as schools, hospitals and roads under the UK private finance initiative legislation. The Society has not suffered any losses on this lending and there are currently no arrears of three months or more.

Head office functions

The Society's head office functions comprise the executive management and the treasury function together with a range of support functions such as legal and secretariat services, human resources, strategic planning and external relations, finance, risk management, property services and internal audit.

The treasury division centrally manages liquid asset portfolios as well as most of the financial risk exposures and is responsible for wholesale funding activities.

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 Chief Financial Officer, the Deputy CEO and the Chief Products and Propositions 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

On 21 May 2019, the Society announced that Mark Rennison, Chief Financial Officer, had discussed with the Board his intention to retire upon a suitable replacement being appointed. On 17 July 2019, the Society announced that Chris Rhodes (the Society's Executive Director Product and Propositions) would succeed Mark as Chief Financial Officer. Chris took up his duties as Chief Financial Officer on 16 September 2019, and Mark retired from the Board.

Albert Hitchcock was appointed to the Board on 2 December 2018 and was elected at the Society's annual general meeting held on 18 July 2019. Mitchel Lenson retired from his position as a Non-Executive Director of the Society at the conclusion of the same annual general meeting.

Phil Rivett joined the Board as a non-executive director with effect from 1 September 2019.

Lynne Peacock will retire from Nationwide at the end of 2019. The appointment of Nationwide's next Senior Independent Director is expected to be announced closer to the date of her retirement.

The following table presents information with respect to current directors:

Name	Age (at 4 April 2019)	Position	Other Directorships
David Roberts	56	Chairman	Beazley plc Beazley Furlonge Limited Campion Willcocks Limited NHS England NHS Improvement
Joe Garner	49	Chief Executive	British Triathlon Foundation Trust UK Finance
Chris Rhodes	56	Chief Financial Officer	at.home nationwide Limited Derbyshire Home Loans Limited E-Mex Home Funding Limited Jubilee Mortgages Limited National Numeracy (Trustee) NBS Ventures Management Limited The Lending Standards Board Limited The Mortgage Works (UK) plc UCB Home Loans Corporation Limited
Tony Prestedge	49	Deputy CEO	Dunfermline BS Nominees Limited Monument (Sutton) Limited Nationwide Anglia Property Services Limited

Name	Age (at 4 April 2019)	Position	Other Directorships
			NBS Ventures Limited NBS Ventures Management Limited The Derbyshire (Premises) Limited The Nationwide Foundation Nationwide Trust Limited
Rita Clifton	61	Non-Executive Director	Ascential plc ASOS plc BrandCap Limited Rita Clifton Limited The Green Alliance Trust
Lynne Peacock*	65	Non-Executive Director	Hawkins Residents Limited Serco Group plc The Westminster Society for People with Learning Disabilities
Mai Fyfield	49	Non-Executive Director	Roku Inc BBC Commercial Holdings Limited
Tim Tookey	56	Non-Executive Director	Westmoreland Court Management (Beckenham) Limited
Kevin Parry	57	Non-Executive Director	Daily Mail and General Trust plc Intermediate Capital Group plc KAH Parry Limited Royal National Children's Springboard Foundation Royal London Group
Baroness Usha Prashar	70	Non-Executive Director	UK Community Foundations (Honorary President) Cumberland Lodge
Gunn Waersted	64	Non-Executive Director	Petoro AS Telenor ASA Lukris Invest AS Fidelity International (Bermuda) Saferoad ASA
Albert Hitchcock	54	Non-Executive Director	
Philip Rivett	63	Non-Executive Director	

* Lynne will retire from Nationwide at the end of 2019.

TAXATION

UNITED KINGDOM TAXATION

The following is a summary of the Society's understanding of current United Kingdom law as applied in England and Wales and published HM Revenue & Customs practice (which may not be binding on HM Revenue & Customs) relating to certain aspects of the United Kingdom taxation of the Securities. The summary only relates to certain limited matters, including the deduction of United Kingdom tax from interest on the Securities, the taxation treatment in certain respects of United Kingdom taxpayers who are the absolute beneficial owners of the Securities and the interest on them, and to the stamp duty and SDRT implications of the issue of the Securities or CCDS into the Clearing Systems, of the write-down of the Securities on a Conversion, and of the transfer of the Securities or CCDS within the Clearing Systems. Some aspects of the summary do not apply to certain classes of taxpayer (such as dealers and persons connected with the Society). The statements below assume that there will be no substitution of the Society and do not address the consequences of any such substitution (notwithstanding that such substitution may be permitted by the Conditions). The United Kingdom tax treatment of prospective Securityholders depends on their individual circumstances and may be subject to change in the future. Prospective Securityholders who may be subject to tax in a jurisdiction other than the United Kingdom or who are in any doubt as to their tax position should seek their own professional advice.

1. INTEREST ON THE SECURITIES

Payments of interest on the Securities may be made without deduction of or withholding on account of United Kingdom income tax under the quoted eurobond exemption (the "**Quoted Eurobond Exemption**") in Section 882 of the Income Tax Act 2007 (the "**ITA 2007**") provided that the Securities are and continue to be "listed on a recognised stock exchange or admitted to trading on a multilateral trading facility operated by an EEA-regulated recognised stock exchange" within the meaning of section 987 of the ITA 2007 ("**Section 987**"). The ISM is a "multilateral trading facility" for this purpose. It is operated by the London Stock Exchange which is an EEA-regulated recognised stock exchange.

The London Stock Exchange may cease to be an EEA-regulated stock exchange if the UK withdraws from the EU and, in that case and unless the law is changed (in which regard, see the immediately following paragraph below), securities admitted to trading on the ISM will no longer fall within the Quoted Eurobond Exemption and interest payable on those securities may become subject to UK withholding tax. In such circumstances, the Society intends, prior to the next following interest payment date on the Securities, to list them on a recognised stock exchange or to admit them to trading on a multilateral trading facility operated by an EEA-regulated recognised stock exchange which will in either case satisfy the requirements for the Quoted Eurobond Exemption.

On 27 March 2019, the Government published the Taxes (Amendments) (EU Exit) Regulations 2019 (the "**2019 Regulations**"), which are intended to ensure the continuity of certain tax arrangements following the UK's withdrawal from the EU. The 2019 Regulations include provision for a reference in certain tax laws to "EEA Regulated" to be replaced in certain cases with a reference to "Regulated", which term would include regulation by the UK. If the 2019 Regulations become effective, then securities admitted to the ISM will continue to fall within the Quoted Eurobond Exemption.

Interest on the Securities constitutes United Kingdom source income for tax purposes and, as such, may be subject to income tax by direct assessment even where paid without withholding. However, interest with a United Kingdom source received without deduction or withholding on account of United Kingdom tax will not generally be chargeable to United Kingdom tax in the hands of a Securityholder (other than certain trustees) who is not resident for tax purposes in the United Kingdom unless that Securityholder carries on a trade, profession or vocation in the United Kingdom through a United Kingdom branch, agency or permanent establishment in connection with which the interest is received or to which the Securities are attributable, in which case (subject to exemptions for interest received by certain categories of agent) tax

may be levied on the United Kingdom branch or agency, or permanent establishment. In addition, there are exemptions for interest received by certain categories of agent (such as some brokers and investment managers). The provisions of an applicable double taxation treaty may also be relevant for such Securityholders.

2. DISTRIBUTIONS ON THE CCDS

The Society will not be required to withhold UK tax at source from distributions paid on the CCDS.

3. STAMP DUTY AND STAMP DUTY RESERVE TAX

No United Kingdom stamp duty or stamp duty reserve tax ("**SDRT**") should be payable in the UK on the issue of the Securities into the Clearing Systems or on the write-down of the Securities on a Conversion. Provided no election that applies to the Securities is or has been made under section 97A of the Finance Act 1986 (a "**97A election**") by a Clearing System, no stamp duty or SDRT should be payable on their transfer within that Clearing System, without an instrument of transfer. However, if a 97A election were to apply to the Securities in the future, transfers of the Securities within the Clearing Systems could, unless an exemption applies, be subject to SDRT, generally at the rate of 0.5 per cent. of the consideration given under the agreement to transfer the Securities. If definitive certificates are issued in respect of the Securities, stamp duty and/or SDRT may be payable on a transfer of, or an agreement to transfer Securities, generally at the rate of 0.5 per cent. of the consideration given under the agreement to transfer Securities (or 0.5 per cent. of the consideration for the transfer rounded up to the nearest £5 in the case of stamp duty). Any such charge to SDRT would be discharged if stamp duty is duly paid on the instrument transferring Securities in definitive form, within six years of the date of the agreement.

The SDRT and stamp duty charges referred to above that may arise on transfers of the Securities whether within or outside the Clearing Systems should not apply if the Securities are "hybrid capital instruments" taxable under the hybrid capital instruments tax regime in Chapter 12, Part 5 of the Corporation Tax Act 2009 as introduced by Finance Act 2019 (the "**HCI Rules**"). The Securities are expected to be taxable under the HCI Rules if (a) the Society makes an election within six months beginning on the date on which the Securities are issued for the HCI Rules to apply to them (an "**Election**"), and (b) the Society has not issued the Securities in connection with any arrangements which have as their main purpose or one of their main purposes securing a tax advantage for the Society or for any other person (a "**Tax Advantage Scheme**"). The Society intends to make an Election within six months beginning on the date of issue of the Securities and the Society does not consider that the Securities are being issued as part of a Tax Advantage Scheme.

No stamp duty or SDRT should be payable in the UK on the issue of CCDS into the Clearing Systems on a Conversion. Provided no 97A election is or has been made by a Clearing System that applies to CCDS, no stamp duty or SDRT should be payable in the UK on the transfer of CCDS within that Clearing System, without an instrument of transfer. However, if a 97A election were to apply to CCDS in the future, transfers of CCDS within the Clearing Systems could, unless an exemption applies, be subject to SDRT at the rate of 0.5 per cent. of the consideration given under the agreement to transfer CCDS. If definitive CCDS certificates are issued, stamp duty and/or SDRT may be payable on a transfer of, or an agreement to transfer CCDS, generally at the rate of 0.5 per cent. of the consideration given under the agreement to transfer CCDS. Any such charge to SDRT would be discharged if stamp duty is duly paid on the instrument transferring CCDS in definitive form, within six years of the date of the agreement.

THE PROPOSED FINANCIAL TRANSACTIONS TAX ("FTT")

The European Commission has published a proposal for a Directive for a common FTT in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the "**participating Member States**"). However, Estonia has since stated that it will not participate.

The proposed FTT has very broad scope and could, if introduced in its current form, apply to certain dealings in the Securities (including secondary market transactions) in certain circumstances. The issuance and subscription of Securities should, however, be exempt.

Under current proposals 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 the Securities where at least one party is a financial institution, and at least one party is established in a participating Member State. A financial institution may be, or be deemed to be, "established" in a participating Member State in a broad range of circumstances, including (a) by transacting with a person established in a participating Member State or (b) where the financial instrument which is subject to the dealings is issued in a participating Member State.

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

Prospective holders of the Securities 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 Society 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 Securities, including whether withholding would ever be required pursuant to FATCA or an IGA with respect to payments on instruments such as Securities, 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 Securities, such withholding would not apply prior to the date that is two years after the date on which final regulations defining foreign passthru payments are published in the U.S. Federal Register and Securities 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 Securities.

SUBSCRIPTION AND SALE

Pursuant to a subscription agreement (the "**Subscription Agreement**") dated 20 September 2019, J.P. Morgan Securities plc, Merrill Lynch International and UBS AG London Branch (together, the "**Joint Bookrunners**") have agreed with the Society, subject to the satisfaction of certain conditions, jointly and severally to subscribe for, or procure subscribers for, the Securities at the issue price of 100.00 per cent. of their nominal amount less commissions. The Society has agreed to pay the Joint Bookrunners a commission if the conditions to which the issue of the Securities is subject are satisfied or waived by the Joint Bookrunners. The Society has also agreed to pay certain of the Joint Bookrunners' expenses.

The Joint Bookrunners are entitled to terminate the Subscription Agreement in certain circumstances prior to payment to the Society. The Society has agreed to indemnify the Joint Bookrunners against certain liabilities in connection with the issue of the Securities.

The Joint Bookrunners and their affiliates may have engaged, and may in future engage, in investment banking and/or commercial banking transactions with, and may perform services to members of the Group and their respective affiliates in the ordinary course of business. They have received, or may in the future receive, customary fees and commissions for these transactions. The Joint Bookrunners and their affiliates may have positions, deal or make markets in the Securities, related derivatives and reference obligations, including (but not limited to) entering into hedging strategies on behalf of the Society, other members of the Group and their affiliates, investor clients, or as principal in order to manage their exposure, their general market risk, or other trading activities. In addition, in the ordinary course of their business activities the Joint Bookrunners and/or their affiliates may make or hold a broad array of investments and actively trade 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 Society or its affiliates. Joint Bookrunners or their affiliates that have a lending relationship with the Society routinely hedge their credit exposure to the Society consistent with their customary risk management policies. Typically, such persons 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 Securities. Any such short positions could adversely affect future trading prices of the Securities. The Joint Bookrunners 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 Securities 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 the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

Each Joint Bookrunner has represented and agreed that, except as permitted by the Subscription Agreement, it will not offer or sell the Securities (i) as part of their distribution at any time or (ii) otherwise until 40 days after the later of the commencement of the offering and the Closing Date (the "**distribution compliance period**"), 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, and it will have sent to each dealer to which it sells Securities during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Securities within the United States or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

The Securities are being offered and sold outside of the United States to non-U.S. persons in reliance on Regulation S under the Securities Act.

In addition, until 40 days after the commencement of the offering of the Securities, an offer or sale of Securities within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if such sale is made otherwise than in accordance with an available exemption from registration under the Securities Act.

Prohibition of sales to EEA Retail Investors

Each Joint Bookrunner has represented and agreed that it has not offered, sold or otherwise made available, and will not offer, sell or otherwise make available, any Securities to any retail investor in the European Economic Area. For the purposes of this provision the expression "**retail investor**" means a person who is one (or more) of the following:

(ii) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, "**MiFID II**"); or

(iii) a customer within the meaning of Directive (EU) 2016/97 (the "**Insurance Distribution Directive**"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II.

United Kingdom

Each Joint Bookrunner has represented and agreed 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 the Securities in circumstances in which Section 21(1) of the FSMA would not, if the Society was not an authorised person, apply to the Society; 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 the Securities in, from or otherwise involving the United Kingdom.

Republic of Italy

Each Joint Bookrunner has represented and agreed that the offering of the Securities has not been and will not be registered with the *Commissione Nazionale per le Società e la Borsa* ("**CONSOB**") pursuant to Italian securities legislation and, accordingly, the Securities may not be offered, sold or delivered, nor may copies of this Offering Circular or of any other document relating to the Securities be distributed in the Republic of Italy, except:

(i) to qualified investors (*investitori qualificati*), as defined pursuant to Article 100 of Legislative Decree No. 58 of 24 February 1998, as amended (the "**Financial Services Act**") and Article 34-ter, first paragraph, letter b) of CONSOB Regulation No. 11971 of 14 May 1999, as amended from time to time (the "**Issuers Regulation**"); or

(ii) in other circumstances which are exempted from the rules on public offerings pursuant to Article 100 of the Financial Services Act and Article 34-ter of the Issuers Regulation.

Any offer, sale or delivery of the Securities or distribution of copies of this Offering Circular or any other document relating to the Securities in the Republic of Italy under (i) or (ii) above must:

(a) be made by an investment firm, bank or financial intermediary permitted to conduct such activities in the Republic of Italy in accordance with the Financial Services Act, CONSOB Regulation No. 20307 of 15 February 2018 (as amended from time to time) and Legislative Decree No. 385 of 1 September 1993, as amended (the "**Italian Banking Act**"); and

(b) comply with any other applicable laws and regulations, including any limitation or requirement which may be imposed from time to time by CONSOB, the Bank of Italy (including the reporting requirements, where applicable, pursuant to Article 129 of the Italian Banking Act and the implementing guidelines of the Bank of Italy, as amended from time to time) and/or any other Italian authority.

In accordance with Article 100-bis of the Financial Services Act, where no exemption from the rules on public offerings applies under (i) and (ii) above, the subsequent distribution of the Securities on the secondary market in Italy must be made in compliance with the public offer and the prospectus requirement rules provided under the Financial Services Act and the Issuers Regulation. Failure to comply with such rules may result in the sale of such Securities being declared null and void and in the liability of the intermediary transferring the financial instruments for any damages suffered by the investors.

Canada

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

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

Singapore

Each Joint Bookrunner has acknowledged that this Offering Circular has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, each Joint Bookrunner has represented and agreed that it has not offered or sold any Securities or caused the Securities to be made the subject of an invitation for subscription or purchase and will not offer or sell any Securities or cause the Securities to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, this Offering Circular or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Securities, whether directly or indirectly, to any person in Singapore other than:

(1) to an institutional investor (as defined in Section 4A of the Securities and Futures Act (Chapter 289) of Singapore, as modified or amended from time to time (the "**SFA**")) pursuant to Section 274 of the SFA;

(2) to a relevant person (as defined in Section 275(2) of the SFA) pursuant to Section 275(1) of the SFA, or any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA; or

(3) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where Securities are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

(a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or

(b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities or securities-based derivatives contracts (each term as defined in Section 2(1) of the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Securities pursuant to an offer made under Section 275 of the SFA except:

(i) to an institutional investor or to a relevant person, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;

(ii) where no consideration is or will be given for the transfer;

(iii) where the transfer is by operation of law;

(iv) as specified in Section 276(7) of the SFA; or

(v) as specified in Regulation 37A of the Securities and Futures (Offers of Investments) (Securities and Securities-based Derivatives Contracts) Regulations 2018.

In connection with Section 309B of the SFA and the Securities and the CMP Regulations 2018, the Society has determined, and hereby notifies all relevant persons (as defined in Section 309A(1) of the SFA), that the Securities are 'prescribed capital markets products' (as defined in the CMP Regulations 2018) and Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).

General

No representation has been made that any action has been or will be taken by the Society or any of the Joint Bookrunners that would permit a public offer of the Securities, or possession or distribution of this Offering Circular (in preliminary, proof or final form) or any other offering or publicity material relating to the Securities (including roadshow materials and investor presentations), in any country or jurisdiction where action for that purpose is required. The Securities may not be, directly or indirectly, offered or sold in any country or jurisdiction where action for that purpose is required. Accordingly, the Securities may not, directly or indirectly, be offered or sold, and neither this Offering Circular nor any other circular, prospectus, form of application, advertisement or other material may be distributed in or from, or published in, any country or jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations.

Neither the Society nor any of the Joint Bookrunners represents that the Securities may at any time lawfully be sold in or from any jurisdiction (other than in or from the United Kingdom) in compliance with any applicable registration requirements or pursuant to an exception available thereunder or assumes any responsibility for facilitating such sales.

GENERAL INFORMATION

1. Authorisation

The issue of the Securities was duly authorised by resolutions of the Board of Directors of the Society passed on 20 June 2019 and 30 August 2019.

2. Approval, listing and admission to trading

The Securities are expected to be admitted to trading on the ISM with effect on or around the Issue Date. The ISM is not a regulated market within the meaning of MiFID II. The ISM is a market designated for professional investors.

3. Clearing Systems

The Global Certificate has been accepted for clearance through Euroclear and Clearstream, Luxembourg. The ISIN for the Securities is XS2048709427 and the Common Code is 204870942. The CFI and the FISN for the Securities may be obtained from the website of the Association of National Numbering Agencies ("**ANNA**") or alternatively sourced from the responsible National Numbering Agency that assigned the ISIN.

The address of Euroclear is Euroclear Bank S.A./N.V., 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.

4. No significant change

Since 4 April 2019, there has been no significant change in the financial or trading position of the Society or the Group and no material adverse change in the financial position or prospects of the Society or the Group.

5. Litigation

There have been no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened) of which the Society is aware during the 12 months preceding the date of this Offering Circular which may have, or have had in the recent past, significant effects on the financial position or profitability of the Group.

6. Auditors

The accounts of the Group for the two years ended 4 April 2019 have been audited by PricewaterhouseCoopers LLP ("**PwC**"), Chartered Accountants and Registered Auditors, without qualification and in accordance with International Financial Reporting Standards and auditing standards issued by the Auditing Practices Board. PwC has no material interest in the Group.

At the Society's annual general meeting held on 18 July 2019, the members of the Society approved the appointment of Ernst & Young LLP ("**EY**"), Chartered Accountants and Registered Auditors, as the Society's auditors for the financial year ending 4 April 2020. EY has no material interest in the Group.

7. Documents available for inspection

Copies of the following documents may be inspected at the principal office of the Society during normal business hours on any weekday (Saturdays, Sundays and public holidays excepted) during

the period from the date of this Offering Circular up to and including the date on which no Security remains outstanding:

(i) the Memorandum and Rules of the Society;

(ii) the published audited consolidated and non-consolidated annual financial statements of the Society for the years ended 4 April 2018 and 2019;

(iii) the CCDS Prospectus;

(iv) the most recent published audited consolidated and non-consolidated annual financial statements and unaudited interim consolidated financial statements of the Society; and

(v) the Agency Agreement.

PRINCIPAL OFFICE OF THE SOCIETY

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ICM:33043753.10