THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in doubt as to the action you should take in connection with this document or the proposals contained in it, you are recommended to seek your own personal financial advice immediately from your stockbroker, bank manager, solicitor, accountant or other independent financial adviser authorised under the Financial Services and Markets Act 2000, if you are taking advice in the United Kingdom, or from another appropriately authorised independent financial adviser if you are taking advice in a jurisdiction outside the United Kingdom.

This document comprises a prospectus (the **Prospectus**) relating to Nationwide Building Society (the **Society**) and to the Society and its consolidated subsidiaries (**Nationwide** or the **Group**) prepared in accordance with the Prospectus Rules of the Financial Conduct Authority (the **FCA**) made under section 73A of the Financial Services and Markets Act 2000 (the **FSMA**). The Prospectus will be made available to the public in accordance with the Prospectus Rules. Capitalised terms used in this Prospectus which are not otherwise defined have the meanings given to them in "*Part XXII: Definitions*".

NATIONWIDE BUILDING SOCIETY

(incorporated in England and Wales under the UK Building Societies Act 1986, as amended, and regulated by the Prudential Regulation Authority and the Financial Conduct Authority with FCA Mutuals Public Register Number 355B)

Offer of up to 5,000,000 Core Capital Deferred Shares of £1 each
at an Offer Price of £100 per CCDS
and admission to the Official List and to trading on the London Stock Exchange

Joint Bookrunners

BofA Merrill Lynch **Barclays**

J.P. Morgan Cazenove **UBS Investment Bank**

Financial Adviser and Structuring Adviser

Rothschild

ISSUED CCDS IMMEDIATELY FOLLOWING THE OFFER

CCDS of	Number	Aggregate amount
£1 each	Up to 5,000,000	Up to £500,000,000

(assuming no exercise of the Over-allotment Option)

Application will be made to the FCA for all of the Core Capital Deferred Shares (**CCDS**) of the Society to be issued (comprising up to 5,000,000 CCDS to be issued pursuant to the Offer and up to an additional 750,000 CCDS to be issued pursuant to any exercise of the Over-allotment Option) to be admitted to the Standard Listing segment of the Official List maintained by the FCA and to the London Stock Exchange plc for such CCDS to be admitted to trading on the London Stock Exchange's main market for listed securities. It is expected that admission to listing to the Standard Listing segment of the Official List and trading on the London Stock Exchange's main market for listed securities (**Admission**) will become effective and that dealings will commence at 8.00 a.m. on or after 9 December 2013 but not later than 16 December 2013. **No application has been, or is currently intended to be, made for the CCDS to be admitted to listing or trading on any other stock exchange.**

The Directors of the Society, whose names appear on page 58 of this Prospectus, and the Society accept responsibility for the information contained in this Prospectus and declare that, to the best of the knowledge of the Directors and the Society (who have taken all reasonable care to ensure that such is the case), the information contained in this Prospectus is in accordance with the facts and contains no omission likely to affect its import.

Prospective investors should read this Prospectus in its entirety and in particular "*Part II: Risk factors*" on pages 25 to 57 of this Prospectus for a discussion of certain risks and other factors that should be considered in connection with an investment in the CCDS. Prospective investors should be aware that an investment in the Society involves a degree of risk and that, if one or more of the risks described in this Prospectus were to occur, investors may find that their investment is materially adversely affected. The CCDS are a new financial instrument with many novel and complex features. As a provider of core capital to the Society, an investor in CCDS should be prepared to suffer losses on its investment if, in particular, the Society and/or the financial sector generally approaches or enters into a period of financial stress. In particular, investors should note that the Society has neither an obligation nor any right to redeem the CCDS and the CCDS holders do not have any right to require the Society to do so. The declaration of any interim and/or final Distribution on the CCDS by the Society in respect of any financial year is wholly discretionary. Further, a transfer of CCDS will not be valid unless the number of CCDS transferred is a whole number that is equal to or greater than the minimum transfer amount prevailing at the time of transfer. The minimum transfer amount is fixed at 250 CCDS and will not be reduced except in agreement with the Relevant Regulators.

The CCDS are being offered to certain institutional and professional investors in the United Kingdom and elsewhere outside the United States in reliance on Regulation S under the Securities Act or another exemption from, or in a transaction not subject to, the registration requirements of the Securities Act as described in Part VI: "*Details of the Offer*".

The CCDS are deferred shares for the purposes of section 119 of the Building Societies Act 1986, as amended, and are not protected liabilities for the purpose of the Financial Services Compensation Scheme established under the FSMA.

A statement confirming the number of CCDS which are the subject of the Offer (the **Statement**) is expected to be published on or after 27 November 2013 but not later than 4 December 2013.

Barclays Bank PLC (**Barclays**), which has been appointed Joint Bookrunner, J.P. Morgan Securities Plc (**J.P. Morgan**), which has been appointed Joint Bookrunner, Merrill Lynch International (**BofA Merrill Lynch**), which has been appointed Joint Bookrunner, UBS Limited (**UBS** and, together with Barclays, J.P. Morgan and BofA Merrill Lynch, the **Joint Bookrunners**), which has been appointed as Joint Bookrunner, and NM Rothschild & Sons Limited (**Rothschild** and, together with the Joint Bookrunners, the **Banks**), which has been appointed as Financial Adviser and Structuring Adviser, each of which is authorised by the Prudential Regulation Authority (the **PRA**) and regulated by the PRA and the FCA in the United Kingdom, are acting exclusively for the Society and no one else in connection with the Offer and will not regard any other person (whether a recipient or reader of this Prospectus) as their respective clients in relation to the Offer and will not be responsible to anyone other than the Society for providing the protections afforded to their respective clients nor for giving advice in relation to the Offer, Admission or any other matter referred to in this Prospectus.

Apart from the responsibilities and liabilities, if any, which may be imposed on the Banks by the FSMA or the regulatory regime established thereunder, or under the regulatory regime of any jurisdiction where the exclusion of liability under the relevant regulatory regime would be illegal, void or unenforceable, none of the Banks accepts any responsibility whatsoever for, or makes any representation or warranty, express or implied, as to the contents of this Prospectus or for any other statement made or purported to be made by it, or on its behalf, in connection with the Society, the CCDS or the Offer and nothing in this Prospectus will be relied upon as a promise or representation in this respect, whether or not to the past or future. Each of the Banks accordingly disclaims all and any responsibility or liability, whether arising in tort, contract or otherwise (save as referred to above), which it might otherwise have in respect of this Prospectus or any such statement.

By accepting an allocation of CCDS, each investor will be deemed to acknowledge, represent and agree that (a) it is a qualified investor within the meaning of Article 2(1)(e) of Directive 2003/71/EC (and any amendments thereto) and any relevant implementing measures, which is either (i) purchasing the CCDS to be held for its own account; or (ii) acting in a discretionary capacity for the benefit of one or more third parties or funds; and (b) if in the United Kingdom, it is an "investment professional" for the purposes of Article 19 of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005.

Recipients of this Prospectus are authorised solely to use it for the purpose of considering the acquisition of the CCDS and may not reproduce or distribute this Prospectus, in whole or in part, and may not disclose any of the contents of this Prospectus or use any information herein for any purpose other than considering an investment in the CCDS. Such recipients of this Prospectus agree to the foregoing by accepting delivery of this Prospectus.

This Prospectus does not constitute or form part of any offer or invitation to sell or issue, or any solicitation of any offer to purchase or subscribe for, any securities other than the securities to which it relates or any offer or invitation to sell or issue, or any solicitation of any offer to purchase or subscribe for, such securities by any person in any circumstances in which such offer or solicitation is unlawful.

In connection with the Offer, the Society has granted BofA Merill Lynch, as stabilising manager (the **Stabilising Manager**), an option (the **Over-allotment Option**), pursuant to which the Stabilising Manager may require the Society to make available additional CCDS of up to 15 per cent. of the aggregate number of CCDS available in the Offer (before any exercise of the Over-Allotment Option) at the Offer Price to cover over-allotments, if any, made in connection with the Offer. The Over-allotment Option may be exercised, in whole or in part, at any time during the period commencing with the date of publication of the Statement and ending on the third business day immediately prior to the date of Closing.

In connection with the Offer, the Joint Bookrunners may over-allot or effect other transactions with a view to supporting the market price of the CCDS at a level higher than that which might otherwise prevail for a period commencing on the date of publication of the Statement and ending on the third business day immediately prior to the date of Closing. Such transactions may be effected in the over-the-counter markets. There is no obligation on the Joint Bookrunners to undertake stabilisation transactions. Such transactions, if commenced, may be discontinued at any time without prior notice and must be brought to an end on the third business day immediately prior to the date of Closing. Save as required by applicable law or regulation, the Joint Bookrunners do not intend to disclose the extent of any stabilisation transactions under the Offer.

No person has been authorised to give any information or make any representations other than those contained in this Prospectus and, if given or made, such information or representations must not be relied on as having been so authorised.

Neither the delivery of this Prospectus nor any subscription or sale made under it shall, under any circumstances, create any implication that there has been no change in the affairs of the Society since the date of this Prospectus or that the information in it is correct as of any subsequent time.

IN MAKING AN INVESTMENT DECISION, EACH INVESTOR MUST RELY ON ITS OWN EXAMINATION, ANALYSIS AND ENQUIRY OF NATIONWIDE AND THE TERMS OF THE OFFER, INCLUDING THE MERITS AND RISKS INVOLVED.

Each investor, by its subscription of any CCDS, also acknowledges that: (i) it has not relied on the Banks or any person affiliated with the Banks in connection with any investigation of the accuracy of any information contained in this Prospectus or their investment decision; (ii) it has relied only on the information contained in this Prospectus; and (iii) no person has been authorised to give any information or to make any representation concerning Nationwide or the CCDS (other than as contained in this Prospectus) and, if given or made, any such other information or representation should not be relied upon as having been authorised by the Society, the Directors or the Banks.

The contents of this Prospectus should not be construed as legal, financial or tax advice. Each prospective investor should consult its own legal, financial or tax adviser for legal, financial or tax advice in relation to a purchase of CCDS.

Notice to overseas investors

The CCDS have not been, nor will they be, registered under the United States Securities Act of 1933, as amended (the **Securities Act**) or under the applicable securities laws or the regulations of any state or other jurisdiction of the United States. The CCDS are being offered and sold outside the United States in reliance on Regulation S under the Securities Act (**Regulation S**). Subject to certain exceptions, the CCDS may not be offered or sold in the United States, Australia, Hong Kong, Singapore, Switzerland or Japan or to or for the account or benefit of any national, resident or citizen of the United States, Australia, Hong Kong, Singapore, Switzerland or Japan. For a description of these and certain further restrictions on offers, sales and transfers of the CCDS and the distribution of this Prospectus, see "*Part VI: Details of the Offer*".

The CCDS are subject to restrictions on resale and may not be transferred or resold except as permitted under applicable securities laws and regulations. Investors should be aware that they may be required to bear the financial risks of this investment for an indefinite period of time.

The distribution of this Prospectus and the offer and sale of the CCDS in certain jurisdictions may be restricted by law. No action has been or will be taken by the Society or the Banks to permit a public offering of the CCDS other than the Offer in the United Kingdom. Other than in the United Kingdom, no action has been taken or will be taken to permit the possession or distribution of this Prospectus (or any other offering or publicity materials or application form(s) relating to the CCDS) in any jurisdiction where action for that purpose may be required or doing so is restricted by law. Accordingly, neither this Prospectus, any advertisement, nor any other offering material may be distributed or published in any jurisdiction except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this Prospectus comes should inform themselves about and observe any such restrictions. Any failure to comply with applicable restrictions may constitute a violation of the securities laws of the relevant jurisdiction. Further information with regard to the restrictions on the distribution of this Prospectus and the offering and sale of the CCDS is set out at paragraph 12 "*Selling restrictions*" of "*Part VI: Details of the Offer*". Each subscriber for CCDS will be deemed to have made the relevant representations set out therein.

Dated 22 November 2013

CONTENTS

IMPORTANT INFORMATION

The CCDS are a new financial instrument with many novel and complex features. As a provider of core capital to the Society, an investor in CCDS should be prepared to suffer losses on its investment if, in particular, the Society and/or the financial sector generally approaches or enters into a period of financial stress. In particular, investors should note that holders of CCDS have:

- no right to have their CCDS redeemed;

- no right to Distributions on the CCDS, the declaration of which by the Board is wholly discretionary, and Distributions are in any event subject to a cap and other restrictions;

- only limited, capped rights to a return on the winding-up of the Society, and in the event of an insolvent winding-up of the Society, **no right** to receive any return;

- limited contractual pre-emption rights which only apply in certain circumstances; and

- no member voting rights in respect of their CCDS for so long as they are held through the Clearing Systems, as discussed below. For more information in relation to member voting rights, see paragraph 4 "*Meetings of the members of the Society*" of *"Part VII: Overview of certain provisions of the Rules of the Society and the Act relating to the Core Capital Deferred Shares*".

CCDS are deferred shares for the purposes of section 119 of the Building Societies Act 1986, as amended, and are not protected liabilities of the Society for the purposes of (and holders of the CCDS will not therefore benefit from) the Government Financial Services Compensation Scheme.

As a provider of core capital to the Society, an investor in CCDS should be prepared to suffer losses on its investment if, in particular, the Society and/or the financial sector generally approaches or enters into a period of financial stress. Such losses could be manifested in a number of ways, including (without limitation) that:

- the Society may elect or may be required by law or by the PRA (or any successor or other authority having primary supervisory authority with respect to prudential matters in relation to the Society (the **Supervisory Authority**)) to cease declaring Distributions (or reduce the amount declared) either on a temporary or a permanent basis and at any time or whilst any specified circumstances (as referred to below) subsist or during a specified period;

- the market price of the CCDS may fall significantly;

- further CCDS or other regulatory capital instruments may be issued which dilute (either initially or upon conversion into CCDS) the holdings of CCDS investors; and

- in a worst-case scenario, the United Kingdom authorities could take action under the Banking Act 2009 (or similar future legislation) or the Society could enter into an insolvent winding-up,

with the result that investors in the CCDS could lose all or substantially all of their initial investment in the CCDS. See "*Part II: Risk Factors*" under the heading "*The declaration of Distributions by the Board is wholly discretionary and therefore investors in the CCDS cannot be assured of a regular (or any) return on their investment. In addition, the amount of any Distribution paid on the CCDS is entirely within the discretion of the Board and subject to a cap and other limitations*" for further details of the circumstances in which the Society may be prevented from paying or be required to cease paying Distributions. These circumstances include the fact that:

- the Society is not permitted to, and will not, declare a Distribution that is greater than the amount of 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 Distribution;

- under Article 141 of CRD IV, the Society will not be permitted to declare Distributions to an extent which would decrease its Common Equity Tier 1 capital to a level where the combined buffer requirement is not met and, if at any point the Society fails to maintain sufficient Common Equity Tier 1 capital to meet the combined buffer requirement, it will not be permitted to pay any Distributions in excess of a 'maximum distributable amount' calculated in accordance with Article 141; and

- the total Distribution declared on each CCDS in respect of any given financial year of the Society is subject to a cap.

Further, there can be no assurance that a secondary trading market for CCDS will develop. If a secondary market does develop, it may be illiquid, the market price of the CCDS may be volatile, and prices may go down as well as up. Given the uncertainty as to whether a secondary trading market will develop, and that the CCDS are perpetual instruments and the Society has no obligation to redeem or repurchase them, an investor in CCDS should be prepared to hold its CCDS for an indefinite period of time. The CCDS are also subject to a minimum transfer amount of 250 CCDS which is fixed and will not be reduced except in agreement with the Relevant Regulators.

CCDS 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 *"Part II: Risk factors"* under the headings:

- "*Investors in the CCDS will hold beneficial interests in the CCDS through an account with a Clearing System, will not be members of the Society by virtue of their investment in CCDS and must rely on the relevant Clearing System's procedures*";

- "*Investors will have no voting rights at general meetings of the members of the Society for so long as the CCDS are held through an account with a Clearing System*"; and

- "*For so long as the CCDS are held in an account with a Clearing System, the Holders thereof will not be entitled to Conversion Benefits arising on a demutualisation or other transfer of the Society's business to a company".*

The Directors consider that it is unlikely that there will not be a Clearing System through which the CCDS can be held. However, should this be the case, each investor would at the appropriate time receive a CCDS certificate registered in its name.

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

PART I – SUMMARY

Summaries are made up of disclosure requirements known as 'Elements'. These elements are numbered in Sections A-E (A.1-E.7).

This summary contains all the Elements required to be included in a summary for this type of security and issuer. Because some Elements are not required to be addressed, there may be gaps in the numbering sequence of the Elements.

Even though an Element may be required to be inserted in the summary because of the type of security and issuer to which this Prospectus relates, it is possible that no relevant information can be given regarding the Element. In this case a short description of the Element is included in the summary with the annotation "Not Applicable".

Section A – Introduction and Warnings

A.1	**Warning**	This summary should be read as an introduction to the Prospectus. Any decision to invest in the CCDS should be based on a consideration of the Prospectus as a whole by the investor. Where a claim relating to the information contained in the Prospectus is brought before a court, the plaintiff investor might, under the national legislation of the Member States, have to bear the costs of translating the Prospectus before the legal proceedings are initiated. Civil liability attaches only to those persons who have tabled the summary including any translation thereof, but only if the summary is misleading, inaccurate or inconsistent when read together with the other parts of the Prospectus or it does not provide, when read together with the other parts of the Prospectus, key information in order to aid investors when considering whether to invest in the CCDS.
A.2	**Subsequent resale of securities or final placement of securities through financial intermediaries**	Not applicable: the Society is not engaging any financial intermediaries for any resale of securities or final placement of securities after publication of this Prospectus.

Section B – The Society

B.1	**Legal and Commercial Name of the Society**	Nationwide Building Society (the **Society**).
B.2	**Domicile and Legal Form of the Society**	The Society is incorporated in England and Wales under the UK Building Societies Act 1986, as amended (the **Act**), and is regulated by the UK Prudential Regulation Authority (the **PRA**) and the UK Financial Conduct Authority (the **FCA**). Its FCA Mutuals Public Register Number is 355B.

B.3	**Current Operations and Principal Activities of the Society and the Principal Markets in which it Competes**	The core business of the Society and its consolidated subsidiaries (together, **Nationwide**) is providing personal financial services, with retail activities divided into distinct portfolios: residential mortgage loans, savings and general insurance; personal banking products; and financial planning. In addition, Nationwide's activities include specialist lending in both the commercial real estate and buy to let sectors, as well as deposit-taking for small and medium sized enterprises. In addition, Nationwide maintains an investment portfolio of debt securities for its own account. As at 30 September 2013, Nationwide held approximately 11.5 per cent. (according to Bank of England data) of total UK residential mortgage balances and approximately 10.8 per cent. (as calculated by Nationwide based on Bank of England data) of total UK retail savings balances. The Society is the third largest residential mortgage lender in the United Kingdom and one of the three largest household savings providers. Substantially all of Nationwide's activities are in the United Kingdom. As at 30 September 2013, Nationwide had total assets of £193 billion. The Society is the largest building society by assets in the United Kingdom, with assets greater than one and a half times the combined size of the rest of the UK building society sector.
B.4a	**Significant Recent Trends Affecting the Society and its Industry**	Nationwide's main competitors have traditionally been providers of personal financial services in the UK. These include other building societies, banks, life insurance companies and mutual insurance companies. In recent years, competitive pressures, consolidation and changes in the regulatory environment have led to building societies, banks and insurance companies in the UK increasingly offering similar products and services. In addition, new providers have emerged as competitors in all areas of the UK personal financial services market. Price-based competition has increased as institutions increasingly use low-cost telephone, mail and internet-based distribution channels to offer competitively priced retail savings accounts, mortgages and other financial products. The overall size of the new residential mortgage market in the United Kingdom has shrunk considerably since the year to 31 December 2007, when gross residential mortgage lending totalled approximately £357 billion. For the year to 31 December 2012, the equivalent figure was approximately £142 billion, in each case according to Bank of England data. This decline is a result of reduced housing activity driven by a lack of consumer confidence, in part reflecting falling house prices and prolonged economic uncertainty arising out of the global financial and European sovereign debt crises as well as a constrained funding market and tighter lending criteria. However, the nature of competition is essentially unchanged with competition for new lending business remaining fierce. The popularity of buy to let has grown in recent years from a low point in 2009, although volumes remain at around one-third of their 2007 levels according to Council of Mortgage Lenders research based upon Bank of England data **(CML Research)**. The total balance of UK retail savings was £984 billion at 31 December 2007 with balances having grown by 8.2 per cent. over the level at 31 December 2006, according to Bank of England data. The annual growth rate of the UK retail savings market has slowed since 2007 with growth rates of 2.9 per cent. in 2010 and 2.7 per cent. in 2011. Although the growth rate accelerated to 5.0 per cent. in 2012, the rate of growth remains at depressed levels. This slowdown is due to a reduction in net receipts and interest capitalisation; the former due to pressures on households' income and preference to reduce their indebtedness and the latter due to record low interest rates. The introduction of the Bank of England's Funding for Lending Scheme (**Funding for Lending**) has eased competition for retail deposits

		considerably and has led to a significant reduction in the Society's marginal retail funding costs. The availability of Funding for Lending has been extended by one year to January 2015, suggesting that monetary policy will remain accommodative and deposit interest rates subdued.
B.5	**Description of the Group and the Society's Position within the Group**	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 30 September 2013 are set out below: **Wholly-owned subsidiary undertakings** — **Nature of business** Nationwide Syndications Limited — Syndicated lending The Mortgage Works (UK) plc — Centralised mortgage lender Derbyshire Home Loans Limited(1) — Centralised mortgage lender E-Mex Home Funding Limited(1) — Centralised mortgage lender UCB Home Loans Corporation Limited(1) — Centralised mortgage lender Nationwide International Limited(1)(2) — Offshore deposit taker Notes: (1) Regulated entities subject to regulations which require them to maintain capital at agreed levels and so govern the availability of funds for distribution as dividends. (2) The Board has endorsed a decision to change the status of Nationwide International Limited from a subsidiary to a branch. The Society expects this change to happen during its current financial year.
B.6	**Major Interests in the Society and Voting Rights**	As a mutual organisation, the Society has historically not had equity shareholders, but has been managed for the benefit of its members, being the majority of its retail savings and residential mortgage customers. 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 the member's investment or interest in the Society. Only a member of the Society is entitled to vote at general meetings. On Admission, it is not anticipated that any individual will have an interest in CCDS that is notifiable under English law or regulation.

B.7	Selected Historical Key Financial Information and Description of Significant Changes	The following tables set out selected consolidated financial information of Nationwide for the six month periods ended, and as at, 30 September 2013 and 30 September 2012 and for the years ended, and as at, 4 April 2013, 4 April 2012 and 4 April 2011, which has been extracted without material adjustment from "*Part XVIII: Financial information*" of this document. Financial information as at, and for the six month periods ended, 30 September 2013 and 30 September 2012 is unaudited.

INCOME STATEMENT DATA

	Six months ended 30 September		Financial year ended 4 April		
	2013	**2012**	**2013**	**2012**	**2011**
			(*£ millions*)		
Interest receivable and similar income	2,581	2,684	5,395	5,158	4,475
Interest expense and similar charges	(1,497)	(1,794)	(3,414)	(3,568)	(2,966)
Net interest income	**1,084**	**890**	**1,981**	**1,590**	**1,509**
Fee and commission income	236	268	558	515	492
Fee and commission expense	(61)	(54)	(113)	(96)	(92)
Income from investments	2	9	13	10	4
Other operating income	126	—	46	91	7
(Losses)/gains from derivatives and hedge accounting	(16)	(14)	(165)	35	120
Total income	**1,371**	**1,099**	**2,320**	**2,145**	**2,040**
Administrative expenses	(645)	(579)	(1,204)	(1,209)	(1,128)
Depreciation and amortisation	(133)	(97)	(216)	(180)	(150)
Impairment loss on loans and advances to customers	(253)	(258)	(589)	(390)	(359)
Impairment losses on investment securities	1	(23)	(2)	(38)	(66)
Provisions for liabilities and charges	(71)	(39)	(141)	(162)	(52)
Profit before tax	**270**	**103**	**168**	**166**	**285**
Taxation	(36)	17	10	(14)	(61)
Profit after tax	**234**	**120**	**178**	**152**	**224**

STATEMENT OF COMPREHENSIVE INCOME DATA

	Six months ended 30 September		Financial year ended 4 April		
	2013	**2012**	**2013**	**2012**	**2011**
			(£ millions)		
Profit after tax	234	120	178	152	224
Other comprehensive income/(expense):					
Items that will not be reclassified to the income statement					
Actuarial remeasurements of retirement benefit obligations:					
Actuarial remeasurements before tax	(175)	(150)	191	(457)	146
Taxation credit/(charge)	20	36	(53)	99	(55)
	(155)	**(114)**	**138**	**(358)**	**91**
Revaluation of property:					
Revaluation before tax	—	—	3	(8)	3
Taxation	1	—	—	4	1
	1	**—**	**3**	**(4)**	**4**
Effect of tax rate change on other items through the general reserve	(2)	(12)	(2)	(4)	(6)
Adjustments to deferred tax transferred from acquisitions	—	—	—	—	5
Items that may subsequently be reclassified to the income statement					
Available for sale investments:					
Fair value movements taken to equity	69	99	258	272	308
Amount transferred to income statement	50	(35)	(115)	(78)	12
Taxation	(30)	(21)	(39)	(63)	(100)
	89	**43**	**104**	**131**	**220**
Other comprehensive income/(expense)	**(67)**	**(83)**	**243**	**(235)**	**314**
Total comprehensive income/(expense)	**167**	**37**	**421**	**(83)**	**538**

BALANCE SHEET DATA

	As at 30 September	As at 4 April		
	2013	2013	2012	2011
		(£ millions)		
Assets				
Cash	9,737	7,886	8,126	6,130
Loans and advances to banks	2,537	2,522	2,914	4,181
Investment securities – available for sale	11,225	13,421	23,325	21,540
Derivative financial instruments	3,439	4,212	4,176	3,961
Fair value adjustment for portfolio hedged risk	366	872	1,330	1,634
Loans and advances to customers	163,863	159,587	154,169	149,417
Investments in equity shares	28	28	29	103
Intangible assets	916	894	681	529
Property, plant and equipment	880	886	945	948
Investment properties	8	8	9	9
Accrued income and expenses prepaid	172	147	129	215
Deferred tax assets	136	154	229	218
Current tax assets	—	15	—	—
Other assets	25	86	67	68
Total assets	**193,332**	**190,718**	**196,129**	**188,953**
Liabilities				
Shares	130,951	125,574	125,617	122,552
Deposits from banks	3,265	3,230	3,370	2,746
Other deposits	7,137	6,747	6,899	5,809
Due to customers	5,953	5,960	5,833	5,762
Fair value adjustment for portfolio hedged risk	77	150	278	19
Debt securities in issue	31,761	33,429	38,854	37,808
Derivative financial instruments	2,781	3,885	4,287	3,234
Other liabilities	484	251	349	376
Provisions for liabilities and charges	245	318	295	165
Accruals and deferred income	294	366	369	376
Subordinated liabilities	2,438	2,540	1,644	1,973
Subscribed capital	631	1,304	1,625	1,510
Deferred tax liabilities	28	30	28	36
Current tax liabilities	—	—	5	45
Retirement benefit obligations	540	354	517	300
Total liabilities	**186,585**	**184,138**	**189,970**	**182,711**
General reserve	6,842	6,765	6,450	6,659
Revaluation reserve	68	67	65	70
Available for sale reserve	(163)	(252)	(356)	(487)
Total reserves and liabilities	**193,332**	**190,718**	**196,129**	**188,953**

The following table sets out selected consolidated information which is unaudited but which has been derived, in the manner explained in the footnotes, from "*Part XVIII: Financial information*" of this document.

	As at/six months ended 30 September		**As at/financial year ended 4 April**		
	2013	**2012**	**2013**	**2012**	**2011**
	(*£ millions, except percentages*)				
Capital ratios					
Core tier 1 capital	14.2%	12.4%	12.3%	12.5%	12.5%
Tier 1 capital(1)	16.1%	16.2%	15.5%	16.0%	15.7%
Total capital(1)	20.0%	18.3%	19.1%	18.9%	19.5%
Ratio of administrative expenses to mean total assets(2)	0.81%	0.69%	0.73%	0.72%	0.67%
Other financial data					
Profit before tax (underlying)	332	130	433	267	244
Profit before tax (statutory)	270	103	168	166	285
Cost income ratio (underlying)	52.8%	59.0%	55.9%	62.2%	65.1%
Cost income ratio (statutory)	56.7%	61.5%	61.2%	64.8%	62.6%
Return on average total assets(3)	0.24%	0.12%	0.09%	0.08%	0.12%
Net interest margin(4)	1.13%	0.91%	1.02%	0.81%	0.80%
Ratio of earnings to fixed charges(5)					
Including interest on retail deposits	1.18%	1.06%	1.05%	1.05%	1.10%
Excluding interest on retail deposits	1.97%	1.30%	1.30%	1.26%	1.77%

Notes:

(1) Nationwide complies with the rules which implement the EU Capital Requirements Directive (**Basel II**). Nationwide has also received Individual Capital Guidance based on IRB approaches. The Basel II Pillar 1 capital requirements are calculated using the Retail IRB approach for prime mortgages and unsecured lending; Foundation IRB approach for treasury portfolios (excluding corporates); and the Standardised approach for all other credit risk exposures.

(2) This ratio represents administrative expenses plus depreciation and amortisation as a percentage of the average of total assets at the start and end of each period.

(3) Return on average total assets represents profit on ordinary activities after tax as a percentage of average total assets at the start and end of each period.

(4) Net interest margin represents net interest income as a percentage of weighted average total assets.

(5) For this purpose, earnings consist of profit on ordinary activities before tax and fixed charges. Fixed charges consist of interest expense including or excluding interest on retail deposits, as appropriate.

To provide an indication of the potential impact on Nationwide's capital ratios of CRD IV, the Society has estimated Nationwide's pro forma CRD IV Common Equity Tier 1 ratio on a fully loaded basis to be 11.0 per cent. at 30 September 2013. The primary drivers behind the difference between the Basel II and CRD IV ratios are changes to the treatment of the expected loss capital deduction, an additional deduction for unrealised losses and the removal of the existing pension benefit to Core Tier 1. This estimated CRD IV Common Equity Tier 1 ratio places Nationwide in a strong position to meet the final requirements.

Set out below is a description of significant changes to the Society's financial condition and operating results during each of periods covered in the tables above. Nationwide has experienced challenging market conditions in each of the financial years ended 4 April 2011 (**FY 2011**), 4 April 2012 (**FY 2012**) and 4 April 2013 (**FY 2013**), with the housing market stabilising at a level of transactions well below pre-crisis norms. In addition, the Bank of England base rate has remained at 0.5 per cent. for the entire period. This, combined with inflation consistently above the 2 per cent. target and slow wage growth, has contributed to slow growth in the savings market. In the six months to 30 September 2013, there have been encouraging signs that the UK economic recovery is gathering pace. GDP growth was 0.8 per cent. in the third quarter of 2013, the fastest pace for three years. Nationwide increased its underlying profit before tax by 155 per cent. in the six months ended 30 September 2013 compared to the corresponding period of the previous year and by 62 per cent. in FY 2013 and 9 per cent. in FY 2012, in each case compared with the previous financial year. In addition, Nationwide has a strong balance sheet, a Core Tier 1 capital ratio of 14.2 per cent. and a core liquidity ratio (which is Nationwide's core liquidity portfolio expressed as a percentage of adjusted share, deposit and loan liabilities) of 11.1 per cent. as at 30 September 2013, diverse funding platforms and high quality assets.

In the six months to 30 September 2013, total income was £1.4 billion, an increase of £272 million, or 25 per cent., compared to £1.10 billion recorded in the corresponding period of 2012. Costs increased by 11 per cent., which was driven in part by continued strategic investments. Credit impairments in the six months to 30 September 2013 at £252 million were £29 million, or 10 per cent., lower than the £281 million recorded in the corresponding period of 2012, principally driven by a fall in provisions for retail and other lending and in impairment losses on investment securities which were partially offset by an increase in provisions for commercial lending. Provisions for liabilities and charges in the six months to 30 September 2013 at £71 million were £32 million, or 82 per cent., higher than the £39 million recorded in the corresponding period of 2012. The increase was principally driven by a charge in respect of potential costs in relation to matters which may require remediation in light of a review of compliance with consumer credit legislation being undertaken across the industry.

In FY 2013, total income was £2.32 billion, an increase of £175 million, or 8 per cent., compared to £2.15 billion recorded in FY 2012. Costs increased by 2 per cent., in part reflecting increased depreciation as a result of recent strategic investments. Credit impairments in FY 2013 at £591 million were £163 million, or 38 per cent., higher than the £428 million recorded in FY 2012, principally driven by an increase in specific and collective provisions for commercial lending which were partially offset by a fall in provisions for retail and other lending and in impairment losses on investment securities.

In FY 2012, total income was £2.15 billion, an increase of £105 million, or 5.1 per cent., over the £2.04 billion recorded in FY 2011. Costs increased by 9 per cent., which was driven by strategic investment in Nationwide's business which resulted in increased depreciation, increasing regulatory costs, transactional volume growth and

		inflation. Credit impairments in FY 2012 were broadly stable at £428 million, with a rise in commercial provisions being largely offset by an improvement in retail and treasury provisions. There has been no significant change in the financial or trading position of the Group since 30 September 2013.
B.8	**Selected Key Pro Forma Financial Information**	Not Applicable: No pro forma financial information is disclosed in the Prospectus.
B.9	**Profit Forecast and Estimate**	Not Applicable: No profit forecast or estimate is disclosed in the Prospectus.
B.10	**Audit Report Qualifications**	Not Applicable: There are no qualifications in the accountant's report included in the Prospectus.
B.11	**Explanation if Working Capital is Insufficient**	Not Applicable: The Society has sufficient working capital for its present requirements.

Section C – CCDS

C.1	**Type of Securities being Admitted to Trading and Identification Number**	The Offer comprises up to 5,000,000 CCDS representing 100 per cent. of the issued CCDS immediately following Admission. In connection with the Offer, the Society has granted Merrill Lynch International as stabilising manager on behalf of Barclays Bank PLC, J.P. Morgan Securities plc, Merrill Lynch International and UBS Limited (the **Joint Bookrunners**) an over-allotment option, pursuant to which the Joint Bookrunners may require the Society to make available up to 750,000 additional CCDS (representing up to 15 per cent. of the aggregate number of CCDS available in the Offer, excluding any available in the over-allotment option) at the Offer Price to cover over-allotments, if any, made in connection with the Offer (the **Over-allotment Option**). When admitted to trading, the CCDS will be registered with ISIN number GB00BBQ33664. The CCDS are a novel financial instrument. They have been designed for building societies (which do not have ordinary share capital) to allow them to raise Common Equity Tier 1 capital under new capital regulations which will come into effect on 1 January 2014.
C.2	**Currency of Securities**	The currency of the issue is British pound sterling (**£**).
C.3	**Number of Securities Issued and their Par Value**	There are no CCDS currently in issue. Following Admission, up to 5,750,000 CCDS (assuming full exercise of the Over-allotment Option) of £1 each will be issued fully paid. The issue price of the CCDS is £100 per CCDS, representing £1 of nominal amount and £99 of premium.
C.4	**Rights Attaching to the Securities**	***Status:*** The CCDS constitute direct, unsecured and subordinated investments in the Society and, on a winding-up or dissolution of the Society, rank (a) *pari passu* among themselves and with any other investments ranking or expressed to rank *pari passu* with the CCDS (provided that participation of CCDS holders in the Surplus (as defined below) will be in the manner and proportion described in the conditions of the CCDS (the **Conditions**)), and (b) junior to (i) all liabilities of the Society and (ii) any claims in respect of declared, unconditional and unpaid periodic investment returns and claims ranking or expressed to rank *pari passu* therewith. ***Redemption:*** The CCDS constitute permanent non-withdrawable deferred shares and have no maturity date. The Society has neither an obligation nor any right to redeem or, save following a purchase as referred to in "*Purchases*" below, cancel

		the CCDS and the CCDS holders do not have any right to require the Society to redeem, purchase or cancel the CCDS. ***Purchases:*** The Society may, at any time, subject to the consent of or non-objection from the PRA if then required, purchase CCDS in the open market or otherwise at any price. CCDS so purchased may, at the option of the Society, be held, re-issued and/or re-sold or surrendered to the registrar for cancellation. ***Winding-Up:*** On a winding-up or dissolution of the Society, the rights of the CCDS holders will be limited to (i) a deeply subordinated claim in respect of any Distributions which have been declared (and are unconditional) but which remain unpaid (which claim will rank behind the claims of all other creditors, including subordinated creditors, of the Society) and (ii) an entitlement to share in the surplus assets (if any) of the Society remaining following payment of all amounts in respect of all liabilities of the Society to creditors (including subordinated creditors) and other investing members of the Society (**Surplus**). If the Society is wound up and there is no Surplus (which would be the case in an insolvent winding-up), the investors will not receive any return on their investment in CCDS in the winding-up. If there is a Surplus, it will be shared on a proportionate basis between CCDS holders and the other investing members in the Society. The proportion of the Surplus that the CCDS holders will be eligible to receive upon the winding-up will be determined: • first, by reference to the relative proportion (expressed as a percentage) of the total Common Equity Tier 1 Capital of the Society which is determined, in accordance with a specified formula, to have been contributed by CCDS holders (as a class) as at the time of commencement of the winding-up; and • second, the amount determined in the manner described above will then be shared amongst the CCDS holders *pro rata* based on the number of CCDS they hold, unless that *pro rata* amount per CCDS exceeds the average principal amount per CCDS, in which case CCDS holders will instead be eligible to receive the average principal amount for each CCDS held by them. The average principal amount per CCDS will be re-calculated upon each new issue of CCDS and is, broadly, the aggregate of all amounts paid at initial subscription of all CCDS issued up to the time of calculation divided by the total number of CCDS issued up to that time (whether or not all such CCDS remain outstanding at that time). ***Voting Rights:*** At any meeting of the CCDS holders as a separate class, each CCDS holder shall have one vote for each CCDS held. At any general meeting of the members of the Society, the registered holder of any CCDS shall (in its capacity as a shareholding member of the Society) have one vote (regardless of the number of CCDS held by it and regardless also of the size and number of other relevant investments or interests (if any) conferring membership rights which such registered holder may have in the Society) in accordance with the Society's rules on any matters put to members generally. The CCDS will be held through accounts with a Clearing System unless all Clearing Systems have closed for business and, whilst so held, the legal title to all of the CCDS will be registered in the name of Citivic Nominees Limited (or any replacement or successor nominee) as nominee for the Clearing Systems (the **Nominee**). The Nominee will be entered in the CCDS register as the sole registered holder of the CCDS, and investors holding beneficial interests in the CCDS through accounts with a Clearing System will not become members of the Society by virtue of their investment in CCDS. The members' rights attaching to the CCDS so held will be held by the Nominee, who will be entitled to exercise the voting and other members' rights attributable to all those CCDS so held. Accordingly, the Nominee, in its capacity as a member of the Society, shall have only one vote (regardless of the

		number of CCDS 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) on any resolution put to members of the Society generally. Given the difficulty of casting the single vote attaching to the CCDS at a general meeting of the members of the Society in a manner which reflects the views of all the investors holding CCDS through the Clearing Systems 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 such vote relates to its holding of CCDS.
C.5	**Restrictions on Free Transferability of the CCDS**	The CCDS will be held through accounts with a Clearing System and will be freely transferable with no restrictions on transfer. The CCDS will be transferable in whole numbers and no CCDS may be transferred in part. A transfer of CCDS will not be valid unless the number of CCDS transferred is equal to or greater than the minimum transfer amount prevailing at the time of transfer. The minimum transfer amount is 250 CCDS. The minimum transfer amount is fixed and will not be reduced except in agreement with the Society's relevant regulators (being the FCA and/or the PRA as required in the circumstances). Any decision by the Society to propose a reduction in the minimum transfer amount to such regulators will be based on all relevant factors at the time, which may include (if it is the case) the fact that an established trading market has developed for the CCDS which would enable a wider range of investors to better assess whether or not CCDS would be a suitable investment for them. The Society does not expect to make any such proposal in the near term or to make such proposals frequently. *The Clearing Systems will not accept instructions to settle transfers of CCDS in amounts less than the prevailing minimum transfer amount. Accordingly, purported transfers of CCDS in amounts less than the prevailing minimum transfer amount will be incapable of settlement. Investors in CCDS are responsible for ensuring that any trades they enter into in respect of the CCDS are capable of settlement; failure to do so may result in an investor breaching its contract of sale and purchase. Investors and potential investors in CCDS who are members of the London Stock Exchange are reminded of their obligations under the Rules of the London Stock Exchange, including rule G5000 (obligation to settle).* Transfers of book-entry interests in the CCDS will be effected through the records of the Clearing Systems and their direct and indirect respective participants in accordance with the rules and procedures of the Clearing Systems and their respective direct and indirect participants.
C.6	**Admission to Trading**	Application will be made for all the CCDS in the Society to be admitted to trading on the London Stock Exchange's main market for listed securities and admitted to the Standard Listing segment of the Official List. No application has or is currently intended to be made for the CCDS to be admitted to listing elsewhere or to be traded on any other exchange.
C.7	**Dividend Policy**	The Society's Board of Directors has set the following policy in respect of periodic investment returns (**Distributions**) to be declared in respect of the CCDS. The ranges set out below for past and expected future Distributions will be updated based on feedback from institutional investors during the period in which the CCDS are offered to institutional investors and a notice specifying the final figures within each range will be published on the Society's website and through a regulatory information service before the CCDS are allocated to investors: When determining the interim or final Distributions (if any) to be declared in respect of the CCDS in respect of any given financial year, the Board will have regard to all relevant factors which it considers to be appropriate, including: • the profitability of the Society and its resources available for distribution;

		• the outlook for the Society's business, its short-term and long-term viability and the impact on the Society of the macro-economic environment in the UK, including inflation; • the capital and liquidity position of the Society at the time of declaring the Distribution; • the value to the Society of the capital provided by CCDS holders and rewarding investment in the capital of the Society in a commercially responsible manner, having regard to the risks inherent in such investments and the Society's need to maintain access to capital in the future; • the benefits received by other members of the Society through the operation of the Society's business in accordance with the principles of mutuality; and • the cap on Distributions under the Society's Rules, and subject always to applicable law and regulation and the following overriding fiduciary duties and principles: • the duty of the directors to act in the best interests of the Society; • the duty of the directors to have due regard to the interests of all categories of member, both current and future, of the Society; and • the principles of mutuality that apply by virtue of being a building society. If the CCDS had been in issue for the financial year ended 4 April 2013, and taking into account the policy set out above, the Board is likely to have declared an interim Distribution in the range of £4.75 to £5.75 per CCDS for payment in December 2012 and a final Distribution in the range of £4.75 to £5.75 per CCDS for payment in June 2013. Given the expected timing of the issue of CCDS within the Society's financial cycle, the Board currently expects to make a final Distribution payment in June 2014 which, based on the indication above, would be in the range of £4.75 to £5.75 per CCDS. The Board currently expects, under normal circumstances, to adopt a stable distribution policy and therefore expects that the distribution level indicated above would be appropriate for future years, subject to Nationwide's current and anticipated financial position being viewed as satisfactory. The indications stated above are not binding on the Society and the Board will have absolute discretion (subject to applicable law and regulation) whether or not to declare any interim or final Distribution in respect of any financial year and, if any such Distribution is declared, the amount of such Distribution. Accordingly, in respect of any given financial year, the Board may elect not to declare any Distributions, or may declare an interim and/or a final Distribution, and any such Distribution may be higher (subject to the cap on Distributions under the Society's Rules) or lower than the indications stated above.

Section D – Risks

D.1	**Key Information on the Key Risks that are specific to the Society or its Industry**	***Risks arising out of general economic conditions*** • Nationwide is directly and indirectly subject to inherent risks arising from general economic conditions in the UK and other economies and the state of the global financial markets both generally and as they specifically affect financial institutions. Since mid-2008, the global economy and the global financial system, and the Eurozone in particular, have experienced a period of significant turbulence and uncertainty and Nationwide's business and financial performance have been adversely affected by these conditions. The UK economic recovery is expected to remain fairly subdued by historic standards and the outlook for the commercial real estate market and Nationwide's commercial real estate business is uncertain. • As of 30 September 2013, Nationwide's gross commercial loan portfolio amounted to £19.1 billion, or 11.6 per cent. of its total loans to customers at that date. The underlying credit quality of certain of the loans in Nationwide's commercial loan portfolio has been negatively impacted by a range of factors resulting from continued poor economic conditions which reduce the certainty of cash flows and exacerbate shifts in collateral values and difficulties in refinancing. Reflecting these factors, Nationwide expects collateral values market-wide to rise only very modestly in the next few years, particularly those affecting the property finance segment of its commercial lending portfolio. In particular, loans to the retail and office sectors, which amounted to £3.2 billion and £2.1 billion, respectively, at 30 September 2013, have been some of the most adversely affected loans in the portfolio. Nationwide expects that the volume of impaired commercial loans, and its levels of provisioning in respect of them, is likely to remain elevated in the near term as historic weakness in the UK economy and the commercial real estate market continues to affect the commercial loan book. In addition, the personal sector in the UK remains heavily indebted and vulnerable to increases in unemployment, rising interest rates and/or falling house prices. Each of these factors could result in an increase in Nationwide's retail loan impairment charges. • The low level of base rates was a factor in a decline in Nationwide's net interest margin in its financial years ended 4 April 2011 and 4 April 2012, as wider spreads on new mortgage pricing were outweighed by an increased cost of retail funding principally from increased competition for UK retail savings following disruptions in the wholesale funding markets. Although recent trends in mortgage and savings pricing (driven, in part, by Funding for Lending, have diluted the impact of continuing low base rates, Nationwide currently does not expect any increase in the base rate until 2015 and, accordingly, is likely to continue to be affected by the effects of a constrained net interest margin for some time. • Nationwide's earnings are largely driven by the mortgage and savings markets. The mortgage market has significantly reduced in size since 2007 following the global financial crisis and competition for the highest quality mortgages is intense and is likely to continue, putting downward pressure on returns available for the lowest risk-weighted mortgage assets and impacting both Nationwide's ability to deliver its strategic income targets and its financial performance. In addition, for a number of years the retail savings market has been under pressure from restrictions on households' ability and propensity to save, historically low interest rates and severe competition from banks seeking to reduce their reliance on

		wholesale funding. These factors together have adversely impacted, and may continue to impact, Nationwide's ability to manage its net interest margin. House price growth accelerated in the second half of 2013. There is a risk that house prices could continue to rise faster than earnings, stretching affordability and leaving households more vulnerable to shocks such as unexpectedly early or large increases in interest rates that could ultimately lead to a correction in house prices and higher retail loan losses. ***Financial services industry risks*** • Nationwide's business is subject to inherent risks concerning liquidity. If Nationwide's access to liquidity is constrained for a prolonged period of time, its cost of funding would increase as competition for retail deposits would intensify and the cost of accessing the wholesale markets would rise. This would adversely affect Nationwide's profitability. Under extreme circumstances, a prolonged and severe restriction on Nationwide's access to liquidity could affect its ability to meet its financial obligations as they fall due, to meet its regulatory minimum liquidity requirements, or to fulfil its commitments to lend. In such extreme circumstances, Nationwide may not be in a position to continue to operate without additional funding support and any inability to access such support could have a material impact on Nationwide's solvency. • Nationwide'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 its reputation or the reputation of its brand is damaged. Failure to address, or appearing to fail to address, any one or more of a range of relevant issues could make customers, depositors and investors unwilling to do business with Nationwide and could damage its relationships with its regulators. ***Regulatory risks*** • Effective management of Nationwide's capital is critical to its ability to operate and grow its business and to pursue its strategy. Any change that limits Nationwide's ability to effectively manage its balance sheet and capital resources could have a material adverse impact on its business, financial condition, results of operations, liquidity and/or prospects. A new capital regime (referred to as **Basel III**) will be implemented in the European Economic Area over a number of years from 1 January 2014. In addition, an Independent Commission on Banking (the **ICB**) established by the Government has recommended that capital and loss-absorbency levels of UK financial institutions should exceed the proposals under Basel III. These requirements, as well as the other recommendations of the ICB, are expected to be phased in between 2015 and 2019. The introduction of new rules implementing the ICB proposals could require Nationwide to increase its capital, liquidity and funding requirements or otherwise adversely affect its business or profitability. • Nationwide 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. Any failure to manage these risks adequately could lead to significant liabilities and/or reputational damage. For example, in the light of a review of compliance with consumer credit legislation being undertaken across the industry, Nationwide has recognised a charge of £71 million in the six months ended 30 September 2013 in relation to matters that may require remediation. In addition, Nationwide faces both financial and reputational risk where legal or regulatory proceedings are brought against it or members of its industry generally in the UK High Court or elsewhere, or where complaints are made against it or members of its industry generally to the Financial Ombudsman Service or another relevant body.

		• Regulators and other bodies in the UK and worldwide have produced a range of proposals for future legislative and regulatory changes, including measures contained in the Financial Services (Banking Reform) Bill intended to give effect to ICB recommendations and a proposed recovery and resolution directive under consideration by the European Commission. These changes could impose operational restrictions on Nationwide, cause Nationwide to raise further capital, increase Nationwide's expenses and/or otherwise adversely affect its business results, financial condition or prospects. ***Competition risks*** • Nationwide competes mainly with other providers of personal finance services, including banks, building societies and insurance companies, and operates in the increasingly competitive UK personal financial services segments. Each of the main personal financial services markets in which Nationwide operates is mature and slow growing so this requires taking market share from competitors. This places elevated focus on price and service as the key differentiators versus peers (being leading retail banks operating in the UK (Barclays, HSBC, Lloyds, Santander UK and RBS)), each of which carries a cost to the provider. If Nationwide is unable to match the efficiency of its competitors in these respects, it risks losing one of its significant competitive advantages and being unable to match its strategic growth aspirations. • In past years the Government has provided significant support to UK financial institutions, including through the Bank of England's Funding for Lending scheme. Nationwide faces the risk that Government support provided to UK financial institutions, including through Funding for Lending, may be withdrawn causing those institutions which have relied significantly on that support to seek alternative sources of funding, including through aggressive competition for retail funding, which would adversely affect Nationwide.
D.3	**Key Information on the Key Risks that are specific to the CCDS**	• The CCDS are a new financial instrument with many novel and complex features. As a provider of core capital to the Society, an investor in CCDS should be prepared to suffer losses on its investment if, in particular, the Society and/or the financial sector generally approaches or enters into a period of financial stress. • The CCDS are not protected liabilities of the Society under the Financial Services Compensation Scheme and are not guaranteed or insured by any government, government agency or compensation scheme of the United Kingdom or any other jurisdiction. • The CCDS do not constitute a debt or a liability of the Society, and are the most junior-ranking investment in the Society. On a winding-up or dissolution of the Society, CCDS holders will not be entitled to receive any amounts in the winding-up or dissolution unless all depositors and creditors (including subordinated creditors) of the Society are first paid in full. Any claim CCDS holders may have is subject to a cap and any returns available for distribution to the CCDS holders will be shared proportionately among all CCDS holders. As a result of these factors, in the event of an insolvent winding-up or dissolution of the Society, an investor in CCDS would lose the entire amount of its investment and, even on a solvent winding-up or dissolution, an investor may recover none or only some of its investment.

		• The CCDS constitute permanent non-withdrawable deferred shares in the Society and have no maturity date. The Society has neither an obligation nor any right to redeem the CCDS and CCDS holders do not have any right to require the Society to redeem or purchase the CCDS. In addition, the CCDS are a novel instrument in respect of which there is no established secondary market, and there can be no assurance that such a market will develop or, if a market does develop, that it will be liquid. As a result, an investor in CCDS should be prepared to hold its CCDS for an indefinite period of time. • The declaration of Distributions by the Board from time to time and, if declared, the amount of such Distributions is wholly discretionary and is, at all times, subject to a capped amount per CCDS. If at any time the Board elects not to declare any interim or final Distribution, no Distribution or other amount in respect of the relevant period shall accumulate to CCDS holders or be payable at any time thereafter, and CCDS holders shall have no right to any Distribution or other amount in respect of such period. • The voting rights of CCDS holders at general meetings of the members of the Society are extremely limited. The Nominee for the Clearing Systems will be the only person which is a member of the Society by virtue of its investment in the CCDS unless the Clearing Systems close for business and definitive CCDS are delivered outside the Clearing Systems, an event that the Directors consider to be unlikely to occur. As with all members of the Society, the Nominee will be entitled to only a single vote in respect of its entire holding of CCDS and any other investments it may have in the Society and it has informed the Society that it does not intend to exercise this vote insofar as it relates to the CCDS. Even if definitive CCDS were issued in the limited and unlikely circumstances described above such that each investor were to become a member of the Society, each investor would have only one vote at general meetings, regardless of the number of CCDS held, and such votes would be insignificant in light of the number of members of the Society each having one vote. • The Society may, without the consent or approval of CCDS holders, issue further CCDS or instruments ranking in priority to CCDS, which may include additional tier 1 or tier 2 capital convertible into CCDS. An offering of any such instruments may have a dilutive effect on the holding of CCDS holders. In addition, whilst the Conditions provide for certain pre-emption rights for existing CCDS holders upon an issuance of additional CCDS, there are a number of circumstances in which such rights may be disapplied.

Section E – Offer

E.1	**Net Proceeds and Estimated Expenses**	The net proceeds receivable by the Society pursuant to the Offer are estimated to be approximately £478 million after deduction of taxes, commissions and expenses payable by the Society of up to approximately £22 million. The estimated net proceeds assume that 5,000,000 CCDS will be issued at the Offer Price and that the Over-allotment Option is not exercised.

E.2a	**Reasons for the Offer, Use of Proceeds and Estimated Amount of Proceeds**	There are up to 5,000,000 CCDS available under the Offer (and up to an additional 750,000 CCDS pursuant to the Over-allotment Option). Excluding the exercise of the Over-allotment Option, the Society intends to raise approximately £478 million, after deduction of taxes, commissions and expenses. In common with other financial institutions, the Society is required by law to maintain certain levels of capital to absorb losses in times of financial stress. To date, the Society's regulatory capital has mainly comprised retained profit which has been built up over many years. From time to time, this has been supplemented by issuing Permanent Interest Bearing Shares, which have also constituted regulatory capital, to external investors. In response to the global financial crisis, regulators are requiring all financial institutions to hold more core capital and are changing the eligibility rules for capital instruments. New Permanent Interest Bearing Shares no longer qualify as core capital and Permanent Interest Bearing Shares currently in issue will have their tier 1 capital benefit amortised from 1 January 2014 to 31 December 2021. In the absence of any other developments, the Society would have to rely solely on retained profit to increase its core capital base. Although retained profit has generally met its needs, there may be circumstances where it will be in the best interests of Nationwide to raise core capital from external investors, for example, to support its strategic growth ambitions or to meet new regulatory requirements. In order to ensure that it retains the flexibility to access external capital, the Society proposes to issue the CCDS, an instrument which is expected to qualify as Core Tier 1 capital under currently applicable capital regulations and as Common Equity Tier 1 capital under CRD IV.
E.3	**Terms and Conditions of the Offer**	Under the Offer the CCDS are being issued or sold to certain institutional and professional investors in the United Kingdom and elsewhere outside the United States in reliance on Regulation S under the United States Securities Act of 1933, as amended (the **Securities Act**) or another exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. The distribution of the Prospectus and the offering and sale of CCDS in certain jurisdictions may be restricted by law and therefore persons into whose possession the Prospectus comes should inform themselves about and observe any such restrictions. Any failure to comply with such restrictions may constitute a violation of the securities laws of any such jurisdiction. Other than the Offer in the United Kingdom, no action has been taken or will be taken in any jurisdiction, that is intended to permit a public offering or sale of the CCDS, or possession or distribution of the Prospectus or any other offering or publicity material relating to the CCDS, in any country or jurisdiction where action for that purpose is required. The Society, the directors of the Society (the **Directors**) and the Joint Bookrunners have entered into the underwriting agreement pursuant to which, on the terms and subject to certain conditions contained in the underwriting agreement which are customary in agreements of this nature (including that the Society and the Joint Bookrunners enter into a final terms memorandum confirming the number of CCDS to be issued in the Offer), the Joint Bookrunners have severally agreed to use their reasonable endeavours to procure subscribers for the CCDS under the Offer and, failing which, the Joint Bookrunners have severally agreed to subscribe for themselves (in agreed proportions) the CCDS under the Offer. Allocations under the offer will be determined jointly by the Joint Bookrunners and the Society after indications of interest from prospective investors have been received.

		The Offer is conditional upon admission of the CCDS to the Standard Listing segment of the Official List maintained by the UK Financial Conduct Authority and to trading on the London Stock Exchange's main market for listed securities (**Admission**) and the underwriting agreement becoming unconditional in all respects and not having been terminated in accordance with its terms. The underwriting agreement provides for the Joint Bookrunners to be paid a commission based on the overall proceeds of the Offer. The Society and the Directors have given the Joint Bookrunners certain customary representations, warranties and undertakings and, in the case of the Society, indemnities. Admission is expected to become effective and dealings in the CCDS are expected to commence on the London Stock Exchange, at 8.00 a.m. on or after 9 December 2013 but not later than 16 December 2013.
E.4	**Material Interests to the Offer, including Conflicting Interests**	In connection with the Offer, the Joint Bookrunners and NM Rothschild & Sons Limited (together, the **Banks**) and any of their respective affiliates, acting as investors for their own accounts, may subscribe for and/or purchase CCDS, and in that capacity may retain, purchase, sell, offer to sell or otherwise deal for their own account in CCDS and other securities of the Society or related investments in connection with the Offer or otherwise. In addition, certain of the Banks or their respective affiliates may enter into financing arrangements (including swaps or contracts for differences) with investors in connection with which such Banks (or their affiliates) may from time to time acquire, hold or dispose of CCDS. Each of the Banks and their respective affiliates may also have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform other services for, Nationwide and its affiliates in the ordinary course of business.
E.5	**Selling Shareholders and any Lock-up Arrangement**	There are no selling shareholders. The Society has agreed to certain lock-up arrangements, including not to, for a period of 45 days following Admission, issue or dispose of any CCDS without the prior consent of the Joint Bookrunners.
E.6	**Dilution Resulting from the Offer**	Not Applicable. As no CCDS are currently in issue, there will be no dilution of CCDS holdings arising from the Offer.
E.7	**Estimated Expenses Charged to Investors by the Society**	No expenses will be charged directly to investors by the Society in connection with the Offer.

PART II – RISK FACTORS

Prospective investors should note that the risks relating to the Group, its industry and the CCDS summarised in "Part I: Summary" are the risks that Nationwide believes to be the most essential to an assessment by a prospective investor of whether to consider an investment in the CCDS. However, as the risks which the Group faces relate to events and depend on circumstances that may or may not occur in the future, prospective investors should consider not only the information on the key risks summarised in the summary but also, among other things, the risks and uncertainties described below.

Any investment in the CCDS is subject to a number of risks, most of which are contingencies which may or may not occur, and the Society is not in a position to express a view on the likelihood of any such contingency occurring.

Prior to investing in the CCDS, prospective investors should carefully consider the risk factors associated with any investment in the CCDS, the Society, Nationwide and the financial services industry in the United Kingdom (the ***UK****) in general, together with all the other information contained in this document. This section describes the risk factors which are considered by the Society to be material to Nationwide and an investment in the CCDS. However, these should not be regarded as a complete and comprehensive statement of all potential risks and uncertainties. There may be other risks and uncertainties which are currently not known to the Society or which the Society currently does not consider to be material. Should any of the risks described below, or any other risks or uncertainties, occur this could have a material adverse effect on Nationwide's business, results of operation, financial condition or prospects which in turn would be likely to cause the price of the CCDS to decline and, as a result, an investor in the CCDS could lose some or all of its investment.*

This section of the Prospectus is divided into two main sections – "Risks Related to Nationwide's Business" and "Risks Related to the CCDS".

RISKS RELATED TO NATIONWIDE'S BUSINESS

Nationwide's business and financial performance have been and will continue to be affected by general economic conditions in the UK and elsewhere, and adverse developments in the UK or global financial markets could cause its earnings and profitability to decline.

Nationwide is directly and indirectly subject to inherent risks arising from general economic conditions in the UK and other economies and the state of the global financial markets both generally and as they specifically affect financial institutions. Since mid-2008, the global economy and the global financial system, and the Eurozone in particular, have experienced a period of significant turbulence and uncertainty. The severe dislocation of the financial markets around the world that began in August 2007 and significantly worsened in mid-2008 triggered widespread problems at many commercial banks, investment banks, insurance companies, building societies and other financial and related institutions in the UK and around the world. The dislocation severely impacted general levels of liquidity, the availability of credit and the terms on which credit was available. This crisis in the financial markets led the UK government (the **Government**) and other governments to inject liquidity into the financial system and take other forms of action relating to financial institutions, including bank recapitalisations and the provision of government guarantees for certain types of funding, aimed at both supporting the sector and providing confidence to the market.

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

Although there have been periods where market conditions have generally improved, recent developments, particularly in the Eurozone, have demonstrated that there continues to be significant uncertainty, see "*Nationwide's business and financial performance would be adversely affected by a break-up of the single euro currency*" below.

The sovereign debt crisis in Europe led to an increase in the cost of funding. The initial impact of this increase was felt in the wholesale markets, and there was a consequent increase in the cost of retail funding, with greater competition in a savings market which is growing only slowly by historical standards. A number of policy interventions, including the Bank of England's Funding for Lending Scheme (**Funding for Lending**), helped to ease these funding pressures. However, in the absence of a resolution of the European sovereign debt crisis, the cost of funding could increase again, particularly if the future of the Eurozone is perceived to be threatened.

The UK economic recovery is expected to remain fairly subdued by historic standards in the 2013-2014 and 2014-2015 financial years, with the International Monetary Fund (in its October 2013 World Economic Outlook) predicting UK real GDP growth rates of 1.4 per cent. in 2013 and 1.9 per cent. in 2014. Uncertainty surrounding the future of the Eurozone presents a risk of a significant slowdown in economic activity in the UK's principal export markets, which would have a corresponding effect on the broader UK economy. Domestically, both public and household spending are being constrained by austerity measures and an ongoing squeeze on household incomes, and there is an additional risk that levels of unemployment could increase and there could be declines in real disposable incomes. These pressures on households may, particularly if combined with an increase in interest rates, lead to an increase in arrears in Nationwide's residential and unsecured lending portfolio, and an associated increase in retail impairment provisions, see "*Worsening economic and market conditions and/or increasing interest rates could result in increased retail loan losses which would adversely impact Nationwide's financial and operational performance*" below. Continued poor economic conditions in the UK could also create uncertainty in relation to the cash flows of Nationwide's borrowers in the commercial real estate market and in relation to the value of their collateral, leading to further loan loss provisions against Nationwide's commercial real estate lending, see "*Worsening economic and market conditions could result in increased commercial loan losses which would adversely impact Nationwide's financial and operational performance*" below. Nationwide continues to expect the UK recovery to be sluggish, with the first increase in the Bank of England base rate not expected until 2015. In the meantime, the low interest rate environment will continue to exert downward pressure on net interest income across the sector.

Following the start of market dislocations in August 2007, Nationwide experienced a decline in its net interest margin up to and including its financial year ended 4 April 2011, see "*Nationwide's business and financial performance have been adversely affected by a prolonged period of low Bank of England base rates and may continue to be adversely affected for so long as the base rate remains low*" below.

There have been signs of a pick up in activity in the UK housing market in the second half of 2013, though transaction levels remain below pre-2008 crisis levels. Similarly, after remaining relatively flat for three years, house price growth accelerated in the second half of 2013. See paragraph 3 "*The UK residential mortgage market*" of "*Part IX: Industry overview*". As the wider economy continues to recover, supported by policy measures such as the Funding for Lending and Help to Buy schemes, Nationwide expects buyer activity to improve further. There is a risk, however, that house price growth will continue to accelerate faster than earnings, stretching affordability and leaving households more vulnerable to shocks, such as unexpectedly early or large increases in interest rates that could ultimately lead to higher retail loan losses. There is potential for activity and prices to decline should the labour market situation deteriorate markedly, or if strains in the financial system re-emerge and impair the flow of credit to the wider economy.

The outlook for the commercial real estate market continues to be uncertain. Potential for further weakening in tenant demand and investor appetite means the impairment outlook for Nationwide's commercial lending business has become more uncertain since mid-2011, see "*Worsening economic and market conditions could result in increased commercial loan losses which would adversely impact Nationwide's financial and operational performance*" below.

If margin compression were to result from the withdrawal of funding support and/or in the face of increased competition, there remains the possibility of further downward pressure on profitability and growth depending on a number of external influences, such as the consequences of a more austere economic environment.

Worsening economic and market conditions could result in increased commercial loan losses which would adversely impact Nationwide's financial and operational performance.

Nationwide's commercial loan portfolio on a gross basis amounted to £19.1 billion at 30 September 2013, equal to 11.6 per cent. of its total loans to customers at that date. The underlying credit quality of certain of the loans in this portfolio has been negatively impacted by continued challenging conditions in the sector, with Nationwide recording loan loss provisions of £225 million in the six months to 30 September 2013, £493 million in the financial year ended 4 April 2013, £247 million in the financial year ended 4 April 2012 and £175 million in the financial year ended 4 April 2011 against its commercial lending and its loans secured on commercial real estate in particular. These provisions were driven by still difficult economic conditions in the UK and Eurozone which in turn adversely impacted the commercial real estate market. These conditions have created factors which continue to adversely impact the commercial real estate market, including:

- depressed commercial real estate valuations, in part as a result of a general focus by banks across Europe on reducing their exposures to higher risk assets through portfolio sales and individual asset disposals;
- lower availability of debt and equity finance to support restructurings;
- uncertainties about the capital treatment of commercial real estate lending, with a trend towards higher regulatory capital requirements for commercial real estate lending;
- several high profile tenant failures in recent years; and
- a continuation in the market trend for shorter lease life and of tenants exercising breaks.

All these factors reduce the certainty of cash flows and exacerbate shifts in collateral values and difficulties in refinancing. Reflecting these factors, Nationwide expects collateral values market-wide to rise only very modestly in the next few years, particularly those affecting the property finance segment of its commercial lending portfolio. This segment amounted to £9.5 billion, or 5.8 per cent. of the Society's total customer lending, at 30 September 2013. Within this segment, loans to the retail and office sectors amounted to £3.2 billion and £2.1 billion, respectively, at 30 September 2013 and these are the sectors which have been most affected by continuing tenant defaults. Nationwide expects that the volume of impaired property finance loans, and its levels of provisioning in respect of them, is likely to remain elevated in the near term as historic weakness in the UK economy and the commercial real estate market continues to affect the commercial loan book. Any further loan loss provisions recorded against Nationwide's commercial real estate lending could adversely affect its profitability in the next few years.

Nationwide's business and financial performance have been adversely affected by a prolonged period of low Bank of England base rates and may continue to be adversely affected for so long as the base rate remains low.

The Bank of England base rate has remained at 0.5 per cent. since March 2009, having fallen from 5.75 per cent. in July 2007 through nine consecutive cuts of between 0.25 per cent. and 1.0 per cent. In the 30 years preceding July 2007, the lowest level of the base rate was 3.5 per cent.

The very low level of the base rate since March 2009 was a factor in a decline in Nationwide's net interest margin from 1.12 per cent. in the financial year ended 4 April 2008 to 0.80 per cent. in the financial year ended 4 April 2011, as wider spreads on new mortgage pricing were outweighed by an increased cost of retail funding principally from increased competition for UK retail savings following disruptions in the wholesale funding markets. Nationwide's net interest margin increased to 0.83 per cent. in the year ended 4 April 2012 and to 1.04 per cent. in the financial year ended 4 April 2013, supported by higher mortgage lending, mortgage assets repricing to the Society's Base Mortgage Rate (**BMR**) and Standard Mortgage Rate (**SMR**) and the positive impact of Funding for Lending. Nationwide's retail liabilities generally re-price more quickly than its retail assets reflecting the fact that a greater proportion of its retail assets (principally residential mortgages) pay fixed rates of interest over relatively longer terms. Nationwide's net interest margin was 1.13 per cent. in the six months to 30 September 2013.

Nationwide has contractually committed to maintain its BMR at no more than 2.0 per cent. above the Bank of England base rate. This applies in respect of the reversionary rate applied to fixed rate mortgage loans originated before April 2009. The commitment has limited Nationwide's ability to widen asset margins on a significant proportion of its mortgage book (which, at 30 September 2013, amounted to £53.8 billion, or 38.1 per cent., of Nationwide's total mortgage loans to customers of £141.1 billion).

Although recent trends in mortgage and savings pricing driven, in part, by Funding for Lending, have diluted the impact of continuing low base rates, Nationwide currently does not expect any increase in the base rate until 2015 and, accordingly, is likely to continue to be affected by the effects of a constrained net interest margin for some time.

Nationwide's earnings are largely driven by the mortgage and savings markets. Stagnation in these markets limits Nationwide's ability to grow and to reprice its assets and liabilities in order to manage its net interest margin, thereby adversely impacting its financial performance. In addition, cost is an increasingly important element of consumers' purchasing decisions, which may adversely affect the amount of income that Nationwide is able to generate.

In the run-up to the financial crisis of 2008, mortgage pricing became increasingly complex. In a market where intermediaries accounted for over half of all new business applications and market risks were perceived as low, margins became squeezed and, in some cases, were negative at point of sale, with reliance on customers maturing onto back book rates (for example, the Society's BMR or SMR to which customers transfer after their initial fixed rate or tracker rate (each, a front book rate) expires) for a period of time in order to make a positive return.

The mortgage market was severely impacted by the global financial crisis, with gross new mortgage lending in the UK falling from approximately £357 billion at 31 December 2007 to approximately £142 billion for the year to 31 December 2012, according to Bank of England data. This reduction in market size has made it more difficult to reprice assets rapidly, so that it is more difficult to compensate for the Society's contractual obligation to its BMR mortgage customers, see "*Nationwide's business and financial performance have been adversely affected by a prolonged period of low Bank of England base rates and may continue to be adversely affected for so long as the base rate remains low*" above, and to build a portfolio of mortgages that will in time transfer onto the Society's SMR.

The margin available on new mortgages is higher than that available before the global financial crisis, but competition for the highest quality mortgages is intense and is likely to continue, putting downward pressure on returns available for the lowest risk-weighted mortgage assets. At the same time, price comparison websites have become more popular and widely used, allowing customers more easily to compare products and make buying decisions based on price. Whilst Nationwide aims to provide better long-term pricing to its customers, it is not able to offer the best front book price on all products at all times to all customers, and there is a risk that there will always be a number of other providers offering better short-term pricing that will attract customers who may otherwise have joined or stayed with Nationwide. In consequence, there is a risk that industry pricing will be forced lower, impacting on Nationwide's ability to deliver its strategic income targets and impacting on its financial performance.

For a number of years, the retail savings market has been under pressure from restrictions on households' ability and propensity to save, historically low interest rates and severe competition from banks seeking to lower their loan to deposit ratios and to reduce their reliance on wholesale funding. The net result of these pressures was an increase in the relative price for retail savings, adversely impacting Nationwide's ability to manage its net interest margin. However, most financial institutions have now succeeded in reducing their reliance on wholesale funding. In addition, the Society believes that Funding for Lending has reduced competition for retail deposits by providing financial institutions with cheap funding. See "*In past years the Government has provided significant support to UK financial institutions, including Funding for Lending which commenced on 1 August 2012 and to which an extension was announced on 24 April 2013. Any significant reduction or withdrawal of Funding for Lending could increase competition for other sources of funding which could adversely impact Nationwide*" below.

Nationwide's business and financial performance would be adversely affected by a break-up of the single euro currency.

In recent years, there has been significant volatility in financial markets around the world. The financial turbulence in 2008 and its after-effects on the wider economy have led to generally more difficult earnings conditions for the financial sector and, at the time, resulted in the failures of a number of financial institutions in the United States, the United Kingdom and elsewhere in Europe and unprecedented action by governmental authorities, regulators and central banks around the world. A number of countries in Europe, such as Greece, Italy, Ireland, Portugal and Spain (the **GIIPS countries**), have been particularly affected by the difficult financial and economic conditions since 2008 and are struggling with large sovereign debts and/or public budget deficits. These factors, together with weak economies and disruption in the capital markets, necessitated a range of international rescue packages and other assistance, including for Greece and Ireland in 2010, Portugal in 2011, Greece and Spain in 2012 and, most recently, Cyprus in March 2013. The perceived risk of default on the sovereign debt of certain of the GIIPS countries intensified in the latter part of 2011 and into 2012, particularly in relation to Greece. This raised concern about the contagion effect such a default would have on other European Union economies as well as the ongoing viability of the euro currency and the European Monetary Union (**EMU**).

Reflecting these and other concerns, in January 2012 one of the major international credit rating agencies lowered its long-term ratings in respect of nine European sovereigns, further increasing market uncertainty. Furthermore, the effectiveness of the actions aimed at stabilising European economies and reducing debt burdens is not assured and the possibility remains that the euro could be abandoned as a currency by countries that have already adopted its use or, in an extreme scenario, abandonment of the euro could result in the dissolution of the EMU. This would lead to the re-introduction of individual currencies in one or more EMU member states.

The effects on the European and global economies of the potential dissolution of the EMU, exit of one or more European Union member states from the EMU and the redenomination of financial instruments from euro to a different currency, are impossible to predict fully. However, if any such events were to occur they would likely:

- result in significant market dislocation;
- heighten counterparty risk; and
- affect adversely the management of market risk and, in particular, asset and liability management due, in part, to redenomination of financial assets and liabilities.

If any such events were to occur, Nationwide would be immediately exposed to potential losses on its portfolio of treasury assets and to redenomination risks as one or more individual countries introduced new currencies. In addition, Nationwide anticipates that such an event would be likely to adversely impact the cost and availability of wholesale funding, thereby increasing competition for retail funds and adversely impacting Nationwide's net interest margin.

Worsening economic and market conditions and/or increasing interest rates could result in increased retail loan losses which would adversely impact Nationwide's financial and operational performance.

The performance of Nationwide's retail lending portfolios has been strong over the past three and a half financial years, with levels of arrears and default that are both below industry averages according to CML Research. However, despite some deleveraging, the personal sector in the UK remains heavily indebted and vulnerable to increases in unemployment, rising interest rates and/or falling house prices.

Increased unemployment could lead to borrowers who lose their jobs being unable to service the loan payments in a timely fashion which would result in higher levels of arrears both in Nationwide's secured residential mortgage loan and unsecured consumer loan portfolios which, in turn, would lead to an increase in Nationwide's impairment charges in respect of these portfolios.

Rising interest rates would put pressure on existing and new borrowers whose loans are linked to the base rate and who may have become accustomed to the current low interest rate environment. A significant portion of

Nationwide's outstanding residential mortgage loan products are potentially subject to changes in interest rates. Accordingly, borrowers with a mortgage loan that is subject to a variable rate of interest or where the interest rate adjusts following an initial fixed rate or low introductory rate are exposed to increased monthly payments as and when their 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). 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 and this could lead to an increase in arrears in Nationwide's retail lending portfolios as well as an increase in Nationwide's retail loan impairment charges.

According to the Nationwide House Price Index, average house prices in the UK peaked in October 2007 before falling steadily until February 2009. House prices then recovered until June 2010 after which they remained relatively stable for the next three years. House price growth accelerated in the second half of 2013, with annual price growth reaching 5 per cent. in September compared to an average of less than 1 per cent. in the first half of 2013, though at a national level UK house prices in September 2013 remained around 8 per cent. below their pre-crisis peaks. There is a risk that house prices could continue to accelerate faster than earnings, stretching affordability and leaving households more vulnerable to shocks, such as unexpectedly early or large increases in interest rates that could ultimately lead to a correction in house prices and higher retail loan losses. If UK house prices were to fall generally or in particular regions to which Nationwide has significant exposure in response to renewed economic pressures and/or the actions of lenders seeking to realise the values of impaired assets, this would be likely to result in an increase in Nationwide's retail loan impairment charges as the value of the security underlying its mortgage loans was eroded.

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

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

Nationwide raises funds principally through accepting retail deposits and in the wholesale funding market. It also has a core portfolio of liquid investments as well as a range of other assets which are a further source of liquidity to it. However, if access to liquidity is constrained for a prolonged period of time, Nationwide's cost of funding would increase as competition for retail deposits would intensify and the cost of accessing the wholesale markets would rise. This would adversely affect Nationwide's profitability.

These risks can be exacerbated by enterprise-specific factors, such as over-reliance on a particular source of funding or changes in credit ratings, or by market-wide phenomena, such as market dislocation or a major disaster. There is also a risk that the funding structure employed by Nationwide may prove to be inefficient, giving rise to a level of funding cost that is not sustainable in the long-term for Nationwide to grow its business or even maintain it at current levels. Nationwide'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 which are outside its control, such as liquidity constraints, general market conditions, regulatory requirements and loss of confidence in the UK banking system.

Retail depositors are a significant source of funding for Nationwide and, under current legislation, a minimum of 50 per cent. of Nationwide's aggregate shares and borrowings is required to be in the form of deposits which it accepts from members of the public and which are classified as "shares" in its balance sheet as they confer member status on the depositors. For example, Nationwide's retail deposits classified as shares totalled £131 billion at 30 September 2013, £126 billion at 4 April 2013, £126 billion at 4 April 2012 and £123 billion at 4 April 2011, equal to 79 per cent., 78 per cent., 74 per cent. and 74 per cent., respectively, of shares and other borrowings (comprising retail deposits classified as shares, debt securities in issue and subordinated debt) at each such date. The ongoing availability of retail deposit funding is dependent on a variety of factors outside Nationwide's control, such as general economic conditions and market volatility, the confidence of retail depositors in the economy in general and in Nationwide in particular, the financial services industry specifically and the availability and extent of deposit guarantees. These or other factors could lead to a reduction in Nationwide's ability to access retail deposit funding on appropriate terms in the future. Given the relative size of Nationwide's retail deposit base, it is particularly exposed to any serious loss of confidence by its retail depositors which results in significant withdrawals of deposits over a sustained period.

In addition to its core retail deposit base and liquid investments portfolio, Nationwide sources funding in a number of wholesale markets. Nationwide maintains a range of funding programmes (including commercial paper programmes, medium-term note programmes, securitisation and covered bond programmes and certificate of deposit programmes), targeting investors in a range of markets around the world. Nationwide's funding programmes are used for both short and medium-term funding, while its covered bond and securitisation issues serve to satisfy longer-term funding requirements. If Nationwide's sources of short-term funding become volatile or unavailable, Nationwide may be required to utilise other, possibly more expensive, sources to meet its short-term funding needs. The availability of wholesale funding depends on a variety of factors including market conditions, the general availability of credit, the volume of trading activities, the overall availability of credit to the financial services industry, and rating agencies' and funding markets' assessment of Nationwide's credit strength. These and other factors may limit Nationwide's ability to raise funding in wholesale markets which could result in a significant increase in Nationwide's cost of funding or have other adverse effects on Nationwide's business, financial performance or future prospects.

The maintenance and growth of the level of Nationwide's lending activities depends in large part on the availability of retail deposit funding on appropriate terms, for which there has been increased competition since the severe disturbances in the financial markets began. Increases in the cost of such funding together with the low base rate environment have had a negative impact on Nationwide's margins and profit.

Investors should note that, extreme circumstances market-wide, such as the severe dislocation experienced in credit markets following the onset of the global financial crisis, a prolonged and severe restriction on Nationwide's access to liquidity (including to government and central bank funding and liquidity support) and a prolonged and severe decline in consumer confidence which results in high levels of withdrawals from Nationwide's retail deposit base, could affect Nationwide's ability to meet its financial obligations as they fall due, to meet its regulatory minimum liquidity requirements, or to fulfil its commitments to lend. In such extreme circumstances, Nationwide may not be in a position to continue to operate without additional funding support and any inability to access such support could have a material impact on Nationwide's solvency.

In past years the Government has provided significant support to UK financial institutions, including Funding for Lending which commenced on 1 August 2012 and to which an extension was announced on 24 April 2013. Any significant reduction or withdrawal of Funding for Lending could increase competition for other sources of funding which could adversely impact Nationwide.

In past years the Government has provided significant support to UK financial institutions, including through the Special Liquidity Scheme, which was introduced in April 2008 to improve the liquidity position of the banking system by allowing banks and building societies to swap their high quality mortgage-backed and other securities for UK Treasury Bills for up to three years, and the Credit Guarantee Scheme, which was introduced in October 2008 and under which the Government guaranteed eligible bank and building society debt securities for a limited period. Nationwide no longer participates in either of these schemes.

On 1 August 2012, Funding for Lending became operational. The aim is to boost the incentive for banks and building societies to lend to UK households and non-financial companies. Funding for Lending is designed to reduce funding costs for participating institutions so that they can make loans cheaper and more easily available. Access to Funding for Lending is directly linked to how much each institution lends to the real economy. Those that increase lending are able to borrow more and at a lower cost than those that scale back their lending. Under Funding for Lending, participating financial institutions are, for a period of 18 months to the end of January 2014, able to borrow funds with a maturity of up to four years. On 24 April 2013, the scheme was extended for a further 12 months, with drawings now permitted until the end of January 2015 and the funding under the scheme now running until January 2019.

The availability of Government support for UK financial institutions, to the extent that it provides access to cheaper and more attractive funding than other sources, reduces the need for those institutions to fund themselves in the retail or wholesale markets. Nationwide is participating in Funding for Lending and, at 30 September 2013, had drawings of £2.5 billion under the scheme. By so participating, Nationwide reduces the need to fund itself in the wholesale markets and there is a risk that if it ceases to remain sufficiently active in those markets its access to them could be prejudiced in the future when Government support is reduced or no longer available to it when Funding for Lending ends, currently scheduled at the end of January 2015. Any significant reduction or withdrawal of Government support will increase funding costs for those institutions (including Nationwide) which have previously utilised that support. In the case of Nationwide, this may result in an increase in its funding costs and a reduction in its net interest margin. In addition, financial institutions which have relied significantly on Government support to meet their funding needs will also need to find alternative sources of funding when that support is reduced or withdrawn and, in such a scenario, Nationwide also expects to face increased competition for funding, particularly retail funding on which it is reliant, although that competition is expected to be driven by increased mortgage lending volumes rather than the cessation of Funding for Lending. This competition could further increase its funding costs and so adversely impact its results of operations and financial position.

The extension to Funding for Lending announced in April 2013 has skewed the incentive towards lending to small and medium sized enterprises (**SMEs**), by weighting net lending to that sector by a factor of 10 in 2013 and 5 in 2014. This will benefit eligible institutions which are providing loans to SMEs. As Nationwide does not currently lend to SMEs, there is a risk that its competitive position will be damaged through other institutions having access to new Funding for Lending scheme funds which it does not enjoy with the result that Nationwide might not be able economically to match the pricing of those competitors in the mortgage market.

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

The management of financial, operational and legal 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. Nationwide faces a wide range of risks in its business activities, including, in particular:

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

- 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 Nationwide'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 Nationwide's investment and liquidity portfolios. See also, *"Nationwide's business and financial performance have been adversely affected by a prolonged period of low Bank of England base rates and may continue to be adversely affected for so long as the base rate remains low"* 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;

- model risk, which is the risk that an adverse outcome (incorrect or unintended decision or financial loss) occurs as a direct result of weaknesses or failures in the design or use of a model. The adverse consequences include financial loss, poor business or strategic decision making or damage to Nationwide's reputation. Models are mathematical representations of business systems designed to help describe, predict, experiment with or optimise decisions and scenarios and are used throughout Nationwide's business; and

- operational risk, reflecting the fact that Nationwide's businesses are dependent 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, terrorist action or the failure of external systems such as, for example, operational problems at other institutions. These could, for example, prevent Nationwide's customers from withdrawing cash from Nationwide's automatic telling machines (**ATM**s) or from having their salary credited to their accounts with Nationwide and, if customers associate their problem with Nationwide rather than with the institution causing the problem, this would have an operational and financial impact on Nationwide'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 Nationwide'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 Nationwide 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.

Nationwide has a range of tools designed to measure and manage the various risks which it faces, see "*Part XVII: Risk management*". 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 Nationwide. Such information may not always be correct, updated or correctly evaluated. In addition, even though Nationwide 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 Nationwide's financial performance and business operations.

Reputational risk could cause harm to Nationwide and its business prospects.

Nationwide'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 its reputation or the reputation of its 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 Nationwide 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 "*Nationwide 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 services and accounts;
- failing to properly identify legal, reputational, credit, liquidity and market risks inherent in products offered; and
- generally poor company performance.

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

Nationwide is subject to capital requirements that could have an impact on its operations. The implementation of Basel III, CRD IV and ICB recommendations may hinder growth.

Nationwide is subject to capital adequacy requirements adopted by the PRA and applicable to a building society. Nationwide's capital is reported as a ratio of risk-adjusted assets expressed as a percentage in different measures – Core Tier 1 capital, Tier 1 capital and total capital. If Nationwide fails to meet its minimum regulatory capital requirements, this may result in administrative actions or sanctions against it.

Effective management of Nationwide's capital is critical to its ability to operate and grow its business and to pursue its strategy. Any change that limits Nationwide's ability to effectively manage its balance sheet and capital resources (including, for example, reductions in profits and retained earnings as a result of credit losses, write-downs or otherwise, increases in risk-weighted assets (which are pro-cyclical under the current Basel II, 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.

Basel II, which forms the basis for the European Union's and thus the PRA's capital adequacy requirements, includes the application of risk-weighting depending upon the credit status of certain customers, and subject to approval of supervisory authorities, using an internal ratings-based (**IRB**) approach to credit risk. The requirements also include allocation of risk capital in relation to operational risk and supervisory review of the process of evaluating risk measurement and capital ratios.

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

The Basel III reform package will be implemented in the European Economic Area (the **EEA**) through a regulation and an associated directive (together, **CRD IV**), which was published in the Official Journal of the European Union on 27 June 2013. The regulation establishes a single set of harmonised prudential rules which will apply directly to all credit institutions in the EEA with the directive containing less prescriptive provisions which will need to be transposed into national law. The regulation gives express recognition for Common Equity Tier 1 capital instruments for mutual and co-operative entities and permits the use of a cap or restriction to safeguard the interests of members and reserves. Full implementation will begin from 1 January 2014, with particular elements being phased in over a period of time, to be fully effective by 2022.

Key elements of CRD IV include the following:

- ***Capital requirements*** – higher minimum capital ratios and the introduction of conservation, countercyclical and systemic risk buffers, which are expected to be phased in over the period January 2014 to December 2018;

- ***Definition of capital*** – the Society's Permanent Interest Bearing Shares (**PIBS**), and its subordinated debt which does not meet CRD IV recognition criteria, will be phased out over the period from 1 January 2014 to 31 December 2021;

- ***Increased capital requirements*** – an additional capital charge for credit valuation adjustment risk will be imposed. The majority of the charge relates to the use of derivative instruments (with highly-rated counterparties) to manage interest rate and foreign exchange risk associated with covered bond issuances. The capital charge for financial transactions with large counterparties will also increase. Deferred tax assets will be risk weighted at 250 per cent.;

- ***Common Equity Tier 1 ratio*** – a risk-based ratio calculated as Common Equity Tier 1 capital divided by risk weighted assets, as calculated on the basis set out in CRD IV. As part of its assessment of capital adequacy of major banks and building societies (performed at the request of the FPC, with results announced on 20 June 2013), the PRA introduced certain adjustments to the measurement of Common Equity Tier 1 and requires all firms to meet an adjusted Common Equity Tier 1 ratio of at least 7 per cent. by 31 December 2013. In this connection, the PRA has specified adjustments for Nationwide, see "*Part XV—Capital Adequacy*" for details of such adjustments.

- ***Securitisation exposures*** – from 2014 certain securitisation exposures can either be deducted 100 per cent. from Common Equity Tier 1 capital or risk weighted 1,250 per cent. Nationwide will be applying the 1,250 per cent. risk weighting approach from 1 January 2014;

- ***Deductions from capital*** – expected losses less provisions will be deducted in full from Common Equity Tier 1 capital, gross of tax. Under Basel II, only 50 per cent. of the deduction was from Core Tier 1 capital and was net of tax. The Common Equity Tier 1 capital pension adjustment (net deficit add-back) available under Basel II is to be phased out. However, the recent PRA consultation paper (see below) proposes to accelerate the removal of this benefit in full from 1 January 2014;

- ***New liquidity metrics*** – two new liquidity ratios will be introduced. These are a short-term liquidity stress ratio, referred to as the Liquidity Coverage Ratio, and a longer-term ratio, referred to as the Net Stable Funding Ratio. Both ratios are required to be maintained at levels in excess of 100 per cent., when fully implemented; and

- ***New leverage ratio*** – a new ratio, calculated by dividing Tier 1 capital by total assets (the **leverage ratio**) is required to be maintained at a level of at least 3 per cent. This requirement will be harmonised at EU level from 1 January 2018, until which date the UK regulators may apply such measures as they consider appropriate. The PRA has implemented its own Common Equity Tier 1 capital based definition of leverage, see "*Nationwide may fail to meet the PRA's expectations in relation to its leverage ratio by 31 December 2015 which may result in regulatory action*" below.

On 2 October 2013, the PRA closed its consultation on the draft UK rules to implement certain permitted national discretions in CRD IV. The consultation, "Strengthening Capital Standards: implementing CRD IV – CP5/13", which was published in August 2013, outlined how the PRA proposed to exercise its national discretions. Whilst the final PRA rules are not expected to be published until December 2013, the consultation paper has given an indication of its intended approach. Whilst CRD IV allows regulators to phase in the new measures over a period of time, the PRA has chosen to accelerate this timetable, with most capital deductions to apply in full from 2014. Firms' end-point Common Equity Tier 1 ratios are expected, in general, to be lower than their Basel II Core Tier 1 ratios, due to a combination of additional capital deductions and increased risk weighted assets.

The most significant impact to Nationwide is expected to relate to the capital deduction for expected losses less provisions and the removal of the pension add-back to Common Equity Tier 1 capital. Legacy Additional Tier 1 capital and Tier 2 capital instruments (for example, the Society's PIBS and certain subordinated debt) are expected to be grandfathered in line with the provisions in CRD IV.

There are still a number of areas of the PRA's intended approach which are not yet finalised pending the outcome of the consultation process. In particular, these include the way in which the existing Pillar 2 capital regime will be modified and integrated with the CRD IV framework, and the replacement of existing regulatory capital allocations relating to "planning buffers" designed to absorb potential stressed losses with CRD IV buffers intended to offset pro-cyclicality and absorb the impact of economic stresses or business underperformance (subject to them being lower than the PRA buffer). The final outcome of this consultation process and the resulting PRA policy relating to CRD IV implementation is not yet known and cannot be predicted with any certainty, but it will affect the ultimate level and mix of regulatory capital which major UK banks and building societies, including Nationwide, are required to hold. Accordingly there is a risk that Nationwide will be required to hold higher levels of capital than is currently anticipated or planned for. To the extent that PRA adopts capital or other requirements which exceed those proposed under Basel III, this may adversely impact on the competitiveness of the Society relative to banks and financial institutions subject to less stringent requirements.

In June 2010, the Government established an Independent Commission on Banking (the **ICB**) to consider structural and related non-structural reforms to the UK banking sector to promote financial stability and competition. The ICB's recommendations on reforms were made in September 2011 and, if implemented by the Government, will lead to capital requirements in excess of those under Basel III. The ICB recommendations and the Government's response supporting such recommendations (as set out in HM Treasury White Paper titled "*Sound banking: delivering reform*") includes proposals to increase capital and loss-absorbency to levels that exceed the proposals under Basel III. These requirements, as well as the other recommendations of the ICB, are expected to be phased in between 2015 and 2019. Primary legislation (the Financial Services (Banking Reform) Bill (the **Banking Reform Bill**)) intended to give effect to the ICB's recommendations was published on 4 February 2013. The committee stage for the Banking Reform Bill in the House of Lords began on 8 October 2013. The Government has introduced amendments to the Banking Reform Bill to reflect certain recommendations made by the Parliamentary Commission on Banking Standards. The Banking Reform Bill is, effectively, enabling legislation only and, as such, much of the detailed implementation of the ICB's recommendations (where supported by Parliament) will be set out in secondary legislation which is expected before the end of the current parliament. Draft secondary legislation was published in July 2013, including legislation to establish the framework through which non-capital primary loss-absorbing capacity requirements will be imposed on systemically important UK banks and building societies; this could take the form of a liabilities based measure (Minimum Requirement for Eligible Liabilities) implemented in accordance with the EU Recovery and Resolution Directive. See "*Future legislative and regulatory changes could impose operational restrictions on Nationwide, cause Nationwide to raise further capital, increase Nationwide's expenses and/or otherwise adversely affect its business, results, financial condition or prospects*" below.

Until the legislation is finalised, Nationwide cannot predict the impact such rules will have on its overall capital requirements or how they will affect Nationwide's compliance with the capital and loss absorbency requirements of Basel III. However, the introduction of the new rules and proposals could require Nationwide to increase its capital, liquidity and funding requirements or otherwise adversely affect its business or profitability.

Nationwide may fail to meet the PRA's expectations in relation to its leverage ratio by 31 December 2015, which may result in regulatory action.

In June 2013, following its assessment of the capital adequacy of major UK banks and building societies, the PRA introduced its leverage ratio and subsequently, following discussions between the PRA and the Society, requested that the Society plan to achieve a leverage ratio of 3 per cent. by 31 December 2015. As a result, the Society prepared and agreed a plan with the PRA.

However, because the plan is forward looking, there is a risk that Nationwide's financial position and results may diverge from the current expectations of management on which the plan has been based and any such divergence could adversely affect Nationwide's profitability which, in turn, could affect its ability to achieve the 3 per cent. leverage ratio by 31 December 2015. Factors that could impact on Nationwide's profitability include general economic and market conditions in the UK and elsewhere, the level of interest rates, increased competition, the level of impairments, and provisions arising from conduct risk, to the extent that they adversely impact Nationwide's financial position or results of operations in the period to 31 December 2015.

The PRA has confirmed to the Society that achieving the leverage ratio by 31 December 2015 is an expectation rather than a formal regulatory requirement and that any failure to achieve the leverage ratio would not result in a pre-determined regulatory action. Should the Society fail to achieve the leverage ratio as planned it would expect to enter into discussions with the PRA and consider what actions to take in light of the circumstances then existing, taking into account its capital requirements. Such actions could include, for example, the issuance of additional regulatory capital, deleveraging its assets and other management actions. It is not possible to predict how the PRA would react although the reasons for the failure and the extent of the difference between the actual leverage ratio at 31 December 2015 and the expected 3 per cent. ratio would both be factors which the PRA would take into account in determining what, if any, action it would take at the time.

In addition, it is possible that the PRA may amend the basis on which its leverage ratio is calculated, may seek to expedite the timetable within which it must be achieved or may impose other requirements which the Society will need to satisfy. It is not currently possible to predict with accuracy the nature or, therefore, quantify the extent of any impact of any such amendments, changes or requirements on the Society, but any such factors could adversely impact the Society's capital calculations and funding requirements and consequently adversely affects its business or profitability.

Nationwide 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.

Nationwide is exposed to many forms of legal and regulatory risk, which may arise in a number of ways. In particular:

- certain aspects of its business may be determined by the PRA, the FCA, the OFT, HM Treasury, the Financial Ombudsman Service or the courts as not being conducted in accordance with applicable laws or regulations, or, in the case of the Financial Ombudsman Service, with what is fair and reasonable in the Ombudsman's opinion;

- the alleged mis-selling of financial products, including as a result of having sales practices and/or reward structures in place that are determined 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 or any of which could result in the incurrence of significant costs, may require provisions to be recorded in Nationwide's financial statements and could adversely impact future revenues from affected products; and

- Nationwide may be liable for damages to third parties harmed by the manner in which Nationwide has conducted one or more aspects of its business.

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

Nationwide also faces both financial and reputational risk where legal or regulatory proceedings are brought against it or members of its industry generally in the UK High Court or elsewhere, or where complaints are made against it or members of its industry generally to the Financial Ombudsman Service or another relevant body. For example, a recent UK High Court judgment on the mis-selling of payment protection insurance (**PPI**) has resulted in very significant provisions for customer redress being made by several UK financial services providers. Nationwide's provision for customer redress is reflected in charges of £1 million in the six months ended 30 September 2013, £73 million in the financial year ended 4 April 2013, £103 million in the financial year ended 4 April 2012 and £16 million in the financial year ended 4 April 2011, with the increases in the financial years ended 4 April 2012 and 4 April 2013 following a significant escalation in claims activity across the industry generally. Although Nationwide's PPI product sales ceased in 2007 and Nationwide views its historical sales volumes as relatively low and subject to a rigorous sales process, there can be no assurance that its estimates for potential liability are correct, and its reserves taken to date might prove inadequate. There is currently a significant regulatory focus on the sales practices and reward structures that financial institutions have used when selling financial products. Many financial institutions (including the Society) are reviewing their sales practices and reward structures with a view to ensuring that they are appropriate and match regulatory and customer expectations. However, no assurance can be given that financial institutions (including the Society) will not incur liability for past actions which are determined to have been inappropriate and any such liability incurred could be significant and materially adversely affect Nationwide's results of operations and financial position.

In addition, a number of financial institutions (including the Society) have recently agreed, following discussions with the FCA, to repay customers who were sold card protection insurance and identity protection products issued by Card Protection Plan Limited (**CPP**). As well as CPP selling directly to customers, other financial institutions (including the Society) introduced customers to the CPP products. It is proposed that CPP redress would be paid through a scheme of arrangement (subject to court and creditor approval) and redress is not expected to be paid to customers until Spring 2014 at the earliest.

In the light of a review of compliance with consumer credit legislation being undertaken across the industry, Nationwide is undertaking a comprehensive revision of its own documentation and processes. A number of areas which require further enquiry have been identified and whilst the Society's investigations are still in a relatively early stage, the Society has recognised a charge in the six months ended 30 September 2013 of £71 million in respect of potential costs in relation to matters which may require remediation. Nationwide's findings to the date of the Prospectus have not revealed any customer detriment. No assurance can be given that the Society will not incur liability in connection with any past non-compliance with such legislation or with other similar legislation, and any such non-compliance could be significant and materially adversely affect Nationwide's results of operations and financial position and its reputation.

Regulation designed for the bank public limited company model including, in particular, the Financial Services Compensation Scheme which imposes significant levies on Nationwide, which may increase in future periods, may place a disproportionate burden on Nationwide relative to its competitors.

The regulatory response to the financial crisis of 2008 has been largely designed for the bank public limited company ownership model (for example, the requirement for financial institutions to increase their capital levels (in respect of which considerably more options are available to public limited companies than are available to building societies) and the imposition of levies by the Financial Services Compensation Scheme (the **FSCS**), which are not determined on a basis that reflects the relative risk of the business models of individual institutions). The FSCS pays compensation to eligible customers of authorised financial services firms which are unable, or are likely to be unable, to pay claims against them. For further information on the FSCS, see "*Part XIX: Supervision and regulation*". For further information on certain key differences between building societies and banks, see "*Part IX: Industry overview*". Based on its share of protected deposits, Nationwide pays levies to the FSCS to enable the scheme to meet claims against it. The amount provided for in Nationwide's accounts to meet its obligations to the FSCS was £133 million as at 4 April 2013 and was £37 million as at 30 September 2013. While it is anticipated that the substantial majority of claims will be repaid wholly from recoveries from the institutions concerned, there is the risk of a shortfall, such that the FSCS may place additional levies on all FSCS participants. Any such levies may be in significant amounts that may have a material impact on Nationwide's profits. For example, in March 2012 the FSCS and HM Treasury agreed the refinancing of £20.4 billion in loans made to the FSCS by HM Treasury to fund the compensation payments made by the FSCS to customers whose savings were put at risk by bank failures in 2008 and 2009. As a result, the FSCS was required to pay a significantly increased amount of interest which it will recover through additional levies on the financial services industry. Following recoveries since March 2012, the FSCS currently has outstanding loans of approximately £17.3 billion.

In common with other financial institutions which are subject to the FSCS, Nationwide 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 ongoing administration of the Dunfermline Building Society may result in future levies although the quantum of any such future levies will only become known once any capital loss is crystallised by the administration of Dunfermline Building Society. The quantification and timing of such losses are, accordingly, yet to be determined and, therefore, although Nationwide's share could be significant (reflecting the fact that the share is calculated by reference to the level of each institution's protected deposits and, as at 4 April 2013, Nationwide's share of such deposits was 12.2 per cent.), Nationwide has not made any provision in respect of such levies yet.

Historically, compensation scheme levies similar to the FSCS have tended to increase over time (especially during and in the aftermath of periods of economic crisis), and there can also be no assurance that there will not be any further claims against the FSCS and concomitant increased FSCS levies payable by Nationwide. Any such increases in Nationwide's costs and liabilities related to the levy may have a material adverse effect on the results of operations of Nationwide. Further costs and risks to Nationwide may also arise from discussions at national and European Union levels around the future design of financial services compensation schemes, including increasing the scope and level of protection and moving to pre-funding of compensation schemes.

In July 2012, the FSA published a consultation paper as part of its FSCS Funding Model Review (**FFMR**). The FFMR will concentrate on issues such as the composition of the nine funding classes, the levy thresholds applicable to each and their tariff bases. However, the methodology for determining levies per institution will be driven primarily by revisions to the EU Deposit Guarantee Scheme Directive. The consultation period ended on 25 October 2012 for the consultation paper and the FCA published a Policy Statement feeding back on the consultation in March 2013. It is currently unclear when the revised directive will be finalised.

As a result of the structural reorganisation and reform of the UK financial regulatory authorities, the FSCS is now the responsibility of the FCA. It is possible that future policy of the FSCS and future levies on Nationwide may differ from those at present, and such reforms could result in Nationwide incurring additional costs and liabilities, which may adversely affect its business, financial condition and/or results of operations.

Future legislative and regulatory changes could impose operational restrictions on Nationwide, cause Nationwide to raise further capital, increase Nationwide's expenses and/or otherwise adversely affect its business, results, financial condition or prospects.

Nationwide conducts its business subject to ongoing regulation by the FCA and the PRA. The regulatory regime requires Nationwide to be in compliance across many aspects of activity, including the training, authorisation and supervision of personnel, systems, processes and documentation. If Nationwide fails to comply with any relevant regulations, there is a risk of an adverse impact on its business due to sanctions, fines or other action imposed by the regulatory authorities.

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

Regulators and other bodies in the UK and worldwide have produced a range of proposals for future legislative and regulatory changes which could impose operational restrictions on Nationwide, cause Nationwide to raise further capital, increase Nationwide's expenses and/or otherwise adversely affect its business results, financial condition or prospects. These include, amongst others:

- on 19 June 2013, the Parliamentary Commission on Banking Standards (**PCBS**) published its final report ("Changing banking for good"). This was followed by the publication of the Government's response on 8 July 2013, accepting the overall conclusions of the final report and all of its principal recommendations. Among other things, this included proposals for a new banking standards regime governing the conduct of bank staff, the introduction of a criminal offence for reckless misconduct by senior bank staff, and steps to improve competition in the banking sector. On 1 October 2013, amendments to the Banking Reform Bill were proposed to address the PCBS's recommendations. Depending on the final form of the law, these proposals may have a substantial impact on banks and building societies in the UK generally, including Nationwide;

- measures contained in the Banking Reform Bill including (i) ring-fencing domestic retail banking services of UK banks, (ii) introduction of a power for the UK authorities to bail in debt issued by UK banks and building societies, (iii) increasing UK banks' and building societies' loss-absorbing capacity (including by way of bail-in bonds) and (iv) increasing the ranking of insured depositors on a winding-up to rank ahead of all other unsecured creditors. On 17 July 2013, the Government stated that it does not propose to make any changes to the Act in connection with ring-fencing at this stage but will keep this under review. Building societies (including Nationwide) will be subject to the proposed bail-in powers (see "*The value of the CCDS may be materially adversely affected by any UK bail-in power*" below) and will be affected by the proposed change to the ranking of insured depositors. The Government also intends to commence powers, already available in building societies legislation but not yet in force, which will have the effect that building society shareholding members (other than holders of deferred shares) will rank alongside unsubordinated creditors on a winding-up or dissolution. See further paragraph 2.1 "*The UK Building Societies Act*" of "*Part XIX: Supervision and regulation*". At European Union level, structural reform measures that are similar to some of those contained in the Banking Reform Bill are also under consideration, following the report of the European Commission's high level expert group on reforming the structure of the EU Banking Sector (the **Liikanen Group**). This report's proposals were heavily influenced by the UK experience but there remains a risk that any subsequent European Union legislation implementing the recommendations in the report may impose requirements which are more onerous than those in the Banking Reform Bill or which may not be completely consistent with those in the Banking Reform Bill; and

- in June 2012, the European Commission published a legislative proposal for the establishment of an EU-wide framework for the recovery and resolution of credit institutions and investment firms, the Recovery and Resolution Directive (**RRD**). The draft RRD currently contemplates that it will be implemented in Member States by 31 December 2014, except for certain bail-in provisions which are to be implemented by 1 January 2018. The draft RRD is not in final form and changes may be made to it in the course of the legislative process. See further "*Risks relating to the Banking Act 2009 and the proposed European Union resolution and recovery directive*" below.

There is also a risk that the recent restructuring of regulatory bodies and, in particular, the creation of multiple regulators in the UK could lead to a lack of co-ordination and the emergence of inconsistencies between the different regulatory bodies. Any such development could adversely impact Nationwide's ability to manage its business efficiently and subject it to increased costs through managing an increasingly complex compliance burden.

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

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

Nationwide is currently one of the three largest household savings providers and the third largest provider of residential mortgages in the United Kingdom, with estimated market shares of 10.8 per cent. (as calculated by Nationwide based on Bank of England data) and 11.5 per cent. (according to Bank of England data), respectively, at 30 September 2013. Nationwide's strategy is based on maintaining a market share of at least 10 per cent. in savings, growing its market share of mortgages to 12 per cent. and increasing its share of personal current accounts from an estimated level of around 5.2 per cent. at 31 January 2013 to 10 per cent. It is also aiming to achieve market shares of at least 5 per cent. in all other product areas, using the growth in banking relationships as a prime tool to facilitate broader market share growth. For a more detailed discussion of Nationwide's strategy, see paragraph 3 "*Strategy*" of "*Part X: Description of Nationwide's business*".

Nationwide competes mainly with other providers of personal financial services, including banks, building societies and insurance companies, and operates in an increasingly competitive UK personal financial services market. Each of the main personal financial services markets in which Nationwide operates is mature and slow growing, so that growth requires taking market share from competitors. Some of the Society's competitors have publicly commented that they intend to grow their market share. Such banks may engage in enhanced marketing activities which may result in customers switching their accounts to such competitors or may limit the Society's ability to attract new customers. This places elevated focus on price and service as the key differentiators, each of which carries a cost to the provider. If Nationwide is unable to match the efficiency of its competitors in these respects, it risks losing one of its significant competitive advantages and being unable to match its strategic growth aspirations.

Nationwide competes primarily on its policy of offering consistent long-term good value and better service to its customers. The UK market for financial services and the mortgage market in particular have been reshaped by the recent financial crises. Lenders have moved increasingly towards a policy of concentrating on the highest quality customers, judged by credit score and loan to value criteria, and there is strong competition for these customers. The supply of credit is much more limited for potential customers without a large deposit or good credit history. As the wholesale funding market has become more challenging, there has been greater competition for retail deposits, which has inevitably impacted lenders' margins. Competition may intensify further in response to consumer demand, technological changes, the impact of consolidation by Nationwide's competitors, regulatory actions and other factors. If increased competition were to occur as a result of these or other factors, Nationwide's business, financial condition and results of operations could be materially adversely affected. In particular, the implementation of the ICB's recommendation to separate retail banking activities from the wholesale and investment banking activities carried on by large banking groups operating in the UK between 2015 and 2019 could reduce the distinctiveness of the building society model and potentially afford a competitive advantage for retail ring-fenced institutions which are likely to compete significantly with Nationwide and other building societies in the retail market.

Each of the major UK banks has announced that it will focus on improving its customer service. If Nationwide's customer service levels were perceived by the market to be only in line with, or materially below, those of competitor UK financial institutions, it could lose existing and potential new business. If Nationwide 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.

Rating downgrades and/or negative market sentiment with respect to Nationwide, the sector, the UK and/or other sovereign issuers may have an adverse effect on Nationwide's performance.

If sentiment towards the banks, building societies and/or other financial institutions operating in the UK (including Nationwide) were to deteriorate further, or if Nationwide's ratings and/or the ratings of the sector were to be further adversely affected, this may have a materially adverse impact on Nationwide and restrict its ability to source regulatory capital. 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 Nationwide.

On 9 November 2011, Standard & Poor's Credit Market Services Europe Limited (**S&P**) revised its global criteria for rating financial institutions, including placing a heightened emphasis on economic and industry risk across all financial institutions. On 8 December 2011, S&P confirmed that the revised criteria had not affected its existing ratings of Nationwide. On 18 December 2012, S&P again affirmed Nationwide's existing A+/A-1 ratings, but revised the outlook to negative from stable following similar action in relation to United Kingdom's ratings and concern regarding the adverse trend in S&P's risk adjusted capital ratio for Nationwide. On 16 August 2013, S&P lowered Nationwide's long-term rating to A (with negative outlook).

On 7 October 2011, Moody's Investors Service Limited (**Moody's**) announced that it was downgrading the senior debt and deposit ratings of 12 UK financial institutions and confirming the ratings of one institution, following its review of systemic support assumptions from the Government for these institutions, which it initiated on 24 May 2011. The ratings actions announced included a two-notch downgrade of Nationwide's long-term debt rating from Aa3 to A2. On 27 February 2013 and on 24 October 2013, Moody's affirmed Nationwide's A2/P-1 ratings for bank deposits and senior unsecured debt. The outlook on these ratings is stable.

On 3 November 2011, Fitch Rating Ltd. (**Fitch**) announced that it was downgrading Nationwide's long-term and short-term ratings and the long-term and short-term ratings of Nationwide's debt and that such ratings actions were consistent with Fitch's broad review of other European banks. The ratings actions announced included a downgrade of Nationwide's long-term debt rating from AA- to A+. On 23 February 2012, Fitch upgraded the dated subordinated debt of UK building societies following the introduction of revised criteria on rating regulatory capital. On 8 March 2012, as part of further global rating action on bank capital securities under the new criteria, Fitch downgraded the rating of Nationwide's PIBS. On 19 September 2013, Fitch downgraded Nationwide's long-term issuer default rating to A (with stable outlook).

Any future declines in those aspects of Nationwide's business identified by the rating agencies as significant or otherwise could adversely affect the rating agencies' perception of Nationwide's credit and cause them to take further negative ratings actions. Any downgrade in Nationwide's credit ratings could:

- adversely affect its liquidity and competitive position, particularly through cash outflows to meet collateral requirements on existing contracts as discussed below;
- undermine confidence in Nationwide;
- increase its borrowing costs; or
- limit its access to the capital markets or limit the range of counterparties willing to enter into transactions with Nationwide, as many institutions require their counterparties to satisfy minimum ratings requirements.

By way of an illustration of the potential financial effect of a downgrade, Nationwide is party to contracts which specify collateral requirements based on Nationwide's rating. As a result, a downgrade of Nationwide's long-term debt rating results in cash outflows to meet the new collateral requirements. As at the date of this Prospectus, Nationwide estimates that a one notch downgrade of Nationwide's long-term debt rating (leading to a downgrade in Nationwide's short-term debt rating) by all three rating agencies would result in a contractually required cash outflow of approximately £9.4 billion. However, it should be noted that £2.2 billion of this impact relates to requirements based on Fitch ratings. There is currently a Support Rating Floor assigned to Nationwide's long-term Fitch rating of single-A which, whilst it remains in force, prevents any further downgrade to that rating. Excluding Fitch, the impact of a one notch downgrade would be £7.2 billion. The contractually required cash outflow would not necessarily match the actual cash outflow as a result of other actions that could be taken by management to reduce the impact of the downgrades.

Nationwide has also experienced the other effects referred to above in different degrees when downgraded in the past, although it is not possible to quantify the extent to which the particular effects experienced were due to the downgrade or other factors, such as prevailing market conditions at the time of the downgrade and the extent to which the downgrade had been anticipated by the market. When conducting its regulatory and internal stress tests, Nationwide models the potential impact on its liquidity of a ratings downgrade, including through the loss of unsecured funding and secured funding capacity.

Nationwide's credit ratings are subject to change and could be downgraded as a result of many factors, including the failure of Nationwide to implement its strategies successfully. A downgrade of Nationwide's credit ratings could also lead to a loss of customers and counterparties which could have a material adverse effect on its business, results of operations and financial condition.

In February and April 2013, both Moody's and Fitch reduced the UK's long-term ratings, from Aaa to Aa1 (in the case of Moody's) and from AAA to AA+ (in the case of Fitch). Although these actions have not impacted the respective agencies' ratings of Nationwide, any further downgrade of the UK sovereign credit rating or the perception that such a downgrade may occur could destabilise the markets, impact Nationwide's own rating, borrowing costs and ability to fund itself and have a material adverse effect on Nationwide's operating results and financial condition. For example, on 13 December 2012, S&P affirmed its AAA/A-1+ long- and short-term unsolicited sovereign credit ratings for the UK, but revised the outlook to negative from stable.

A further UK sovereign downgrade or the perception that such a downgrade may occur could depress consumer confidence, restrict the availability, and increase the cost, of funding for individuals and companies, further depress economic activity, increase unemployment and 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, the GIIPS countries in particular. Further instability within these countries or others within the Eurozone might lead to contagion.

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

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

Nationwide 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, Nationwide 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.

Nationwide is a major supplier of credit to the buy to let sector. This sector has yet to operate through an entire business cycle, and any weakness in credit quality of buy to let borrowers may impact the financial and operational performance of Nationwide.

The buy to let market in the UK has expanded rapidly in recent years from a low point in 2009, although volumes in the second quarter of 2013 remain at around half of their 2007 levels according to CML Research. Nationwide is a major supplier of credit to the market, both currently through its subsidiary, The Mortgage Works (UK) plc (**TMW**), and historically through both TMW and a further subsidiary, UCB Home Loans Corporation Limited. The vast majority of new and existing buy to let loans are on an interest only basis for reasons of tax efficiency. These borrowers have been supported through the financial crisis by a combination of low interest rates, stable house prices and rising rents as first time buyers have struggled to raise the required deposit to allow them to purchase their own homes. If interest rates were to rise and/or the economy were to weaken and place pressure on employment, incomes and/or house prices, the credit performance of Nationwide's buy to let mortgage book, which totalled £21 billion at 30 September 2013, may deteriorate, which in turn could adversely impact Nationwide's financial and operational performance.

Nationwide has holdings of available for sale investment securities and negative changes in the fair value of these securities could have a material adverse effect on Nationwide's comprehensive income, financial condition and prospects.

As at 30 September 2013, Nationwide's portfolio of available for sale investment securities had a fair value of £11.2 billion, equal to 5.8 per cent. of its total assets at the same date. As at 30 September 2013, Nationwide's available for sale securities comprised £7.6 billion of government and supranational investment securities (principally debt securities issued by the Government (£4.9 billion at 30 September 2013) and by other governments and supranational entities (£2.8 billion at 30 September 2013) and £3.6 billion of listed private sector investment securities (principally asset backed securities (£2.6 billion at 30 September 2013) and debt securities issued by financial institutions in Europe and elsewhere (£0.2 billion at 30 September 2013)).

Nationwide's available for sale investment securities are fair valued on each balance sheet date and any changes in fair value during the relevant period are recorded in other comprehensive income, except for impairment losses and foreign exchange gains or losses which are recognised in the income statement. Gains and losses arising on the sale of available for sale investment securities are also recognised in the income statement, including any cumulative fair value gain or loss previously recognised in other comprehensive income which is reclassified to the income statement.

In the six months ended 30 September 2013 and in each of the three financial years ended 4 April 2013, 2012 and 2011, Nationwide recorded other comprehensive income from available for sale investments (net of amounts reclassified to the income statement) of £89 million, £104 million, £131 million and £220 million, respectively. In each of the three financial years ended 4 April 2013, 2012 and 2011, Nationwide also recognised net impairment losses on available for sale investment securities of £2 million, £38 million and £66 million, respectively. The impairment losses principally related to Nationwide's asset backed securities in each year.

Although Nationwide has recorded other comprehensive income and limited impairments in respect of its available for sale investment portfolio in recent years, it has in previous years experienced significant fair valuation losses on securities included in the portfolio. Accordingly, there can be no assurance that fair valuations of its investment securities in future periods will not result in other comprehensive losses or impairments which could be material, particularly with respect to Nationwide's investment securities with GIIPS in "country exposure and its asset backed securities, see paragraph 6 "*Country exposures*" of "*Part XVI: Selected statistical information*". In addition, the value that Nationwide ultimately realises for its investment securities may be lower than their current fair value, resulting in losses being recorded in its income statement, which losses could be material. Any of these factors could have a material adverse effect on Nationwide's operating results, financial condition or prospects.

Changes in Nationwide'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 Nationwide's financial statements. These changes can be difficult to predict and could materially impact how Nationwide records and reports its financial condition and results of operations. In some cases, Nationwide could be required to apply a new or revised standard retroactively, resulting in restating prior period financial statements.

For example, IFRS 9 Financial Instruments is the new standard to replace IAS 39. It will change the classification and measurement of some financial assets, the recognition and the financial impact of impairment and hedge accounting. The proposals are yet to be finalised and therefore it is not possible to estimate the financial effects, although it is expected that IFRS 9 will have a significant impact for the Group, in line with the wider industry. In July 2013, the IASB tentatively decided that the effective date of IFRS 9 will be deferred from 1 January 2015 to an unspecified date pending the finalisation of the standard.

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

Nationwide'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 Nationwide records and reports its financial condition and results of operations. The Society must exercise judgment 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 the historical financial information set out in "*Part XVIII: Financial Information*" of this document in respect of which significant judgment is required in determining appropriate assumptions and estimates when valuing assets, liabilities, commitments and contingencies. These judgments relate to the assumptions used in the determination of impairment amounts (see notes 11 and 15 in Section B of "*Part XVIII: Financial information*" and note 8 in Section C of "*Part XVIII: Financial information*"), the assumptions underlying effective interest rate calculations relating to the recognition of income from certain financial assets (see notes 3 and 4 in Section B of "*Part XVIII: Financial information*"), the estimates underlying its determination of certain provisions (see note 27 in Section B of "*Part XVIII: Financial information*" and note 9 in Section C of "*Part XVIII: Financial information*") and the assumptions underlying its calculations of retirement benefit obligations (see note 31 in Section B of "*Part XVIII: Financial information*").

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. Nationwide has established detailed policies and control procedures that are intended to ensure that these judgments (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 Nationwide's judgments and the estimates pertaining to these matters, Nationwide 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.

Nationwide may be required to make further contributions to its pension schemes if the value of pension fund assets is not sufficient to cover potential obligations.

Nationwide 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 the pension funds are held and managed by trustees separate from Nationwide's assets. Contributions to the funds are assessed by independent actuaries and agreed between the trustees and Nationwide. 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, Nationwide could be obliged, or may choose, to make additional contributions to its pension schemes. In the financial year ended 4 April 2013, the financial year ended 4 April 2012 and the financial year ended 4 April 2011, Nationwide made additional deficit contributions of £nil, £241 million and £99 million, respectively, to its pension schemes. Depending on the pace and nature of any future macro-economic recovery, Nationwide may be required or may elect to make further contributions to its pension schemes, which could be significant and have a negative impact on Nationwide's results of operations.

Future income streams identified in Nationwide's strategic plans may not be realised due to future changes in regulation or for other reasons.

The income targets within Nationwide's strategic plans rely in part on the delivery of new products such as added value current accounts and the provision of financial advice under the regulations set by the FCA's Retail Distribution Review. There is a risk that future regulation may change the nature of product charging and/or sales in a way that impacts Nationwide's ability to deliver the planned income, that its chosen business model proves to be inappropriate or that customers are not attracted by the products and services on offer. The Society is currently complying with the requirements of the new regime resulting from the Retail Distribution Review, which took effect from January 2013, and so remains able to provide financial advice to the mass market through its branch network on a fee paying basis, although this is subject to an ongoing management review.

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

Nationwide's activities are principally conducted in the UK and it 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 Nationwide's profitability. Revisions to tax legislation or to its interpretation might also affect Nationwide's financial condition in the future. In addition, Nationwide 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 Nationwide's financial condition in the future.

Risks relating to the Banking Act 2009 and the proposed European Union resolution and recovery directive.

Under the Banking Act 2009 (the **Banking Act**), substantial powers have been granted to HM Treasury, the PRA, the FCA and the Bank of England as part of a special resolution regime (the **SRR**). These powers enable the authorities, among other things, to resolve a bank or building society in circumstances in which the authorities consider its failure has become highly likely and a threat is posed to the public interest. There are a number of stabilisation options under the SRR, including options applicable to building societies which provide for: (i) private sector transfer of all or part of the business of the relevant building society; (ii) transfer of all or part of the business of the relevant building society to a "bridge bank" established by the Bank of England; and

(iii) temporary public ownership (nationalisation) of the relevant building society. 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.

On 1 October 2013, HM Treasury published details of proposed amendments to the Banking Act, to be provided for in the Banking Reform Bill. The proposed amendments will, among other things, introduce a further stabilisation option, in the form of a bail-in tool, as part of the SRR, see "*The value of the CCDS may be materially adversely affected by any UK bail-in power*" below. The proposed provisions include a requirement that HM Treasury make an order to modify the Banking Act and other relevant legislation in connection with the application of the bail-in stabilisation option in relation to building societies and HM Treasury have stated that they intend to consult with the industry on the details of secondary legislation for the purposes of modifying the application of the bail-in provisions in the context of building societies.

In addition, pursuant to amendments made to the Banking Act, which have not yet come into force, provision has been made for stabilisation tools to be used in respect of banking group companies. HM Treasury has been consulting on secondary legislation that specifies the definition of such companies. This consultation closed on 21 November 2013. Once in force, and subject to implementation of the secondary legislation, the amendments to the Banking Act would allow all of the current stabilisation options under the SRR and the proposed bail-in stabilisation power to be applied to any of Nationwide's group companies that meet the definition of a banking group company once that definition has been finalised.

In Europe, among other things, the RRD contemplates the introduction of 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 resolution tools and powers referred to in the RRD include certain tools and powers which overlap in part with those available under the Banking Act and also certain further tools, including a bail-in tool as discussed under "*The value of the CCDS may be materially adversely affected by any UK bail-in power*" below. There is still scope for changes to be made before any final legislation is adopted. The proposals on capital write-down are expected to cover instruments already in issue when the directive is implemented.

The CCDS are deeply subordinated instruments. The CCDS are intended to qualify as Common Equity Tier 1 capital of the Society. The use of the powers afforded to the authorities under the SRR, and the further powers under the proposed RRD if and when implemented in the United Kingdom, could in each case result in the CCDS holders losing their entire investment in the CCDS, including potentially through:

- the transfer of CCDS out of the hands of the holders;
- the write down and/or cancellation of CCDS in connection with a transfer of CCDS out of the hands of holders; or
- transfers of the business or assets of the Society resulting in the CCDS holders holding investments in an entity with reduced or no assets.

Alternatively, CCDS holders may be severely diluted in circumstances where debt instruments issued by the Society, whether through their contractual terms or by operation of the powers under the RRD or the proposed UK bail-in power (in each case, if and when implemented in the United Kingdom), are converted into additional CCDS (or are written down in circumstances where the holders thereof are compensated by the delivery of additional CCDS). Such dilution could result in significantly reduced Distributions (if any) being declared in respect of each CCDS thereafter, and/or in a significantly reduced recovery (if any) for holders on their investment in CCDS in the event that the Society is wound up or dissolved.

If at any time Nationwide becomes (or is perceived to be likely to become) subject to the SRR or the RRD, or if any contractual provisions for the conversion of other obligations of the Society into CCDS are (or are expected to be) triggered, the market price or value of the CCDS may be severely adversely affected, and/or the CCDS holders may lose all or substantially all of their investment in CCDS.

The value of the CCDS may be materially adversely affected by any UK bail-in power.

As mentioned under "*Risks relating to the Banking Act 2009 and the proposed European Union recovery and resolution directive*" above, the Government has proposed the introduction of a UK bail-in power, to be provided to the Bank of England as part of the special resolution regime contained in the Banking Act. The power, if enacted, would allow the Bank of England to write down or convert any securities of UK deposit taking institutions on a stand alone basis (that is, separately from the exercise of any other stabilisation option). The proposed amendments to implement a bail-in power have not yet been approved and changes could be made during the course of the legislative procedure. It is therefore too early to anticipate the full impact of the amendments. However, the exercise of such a power in respect of the Society may result in:

- the cancellation of all, or a portion, of the principal amount of the CCDS on a permanent basis; and/or

- the conversion of all, or a portion, of the principal amount of the CCDS into other capital instruments.

To the extent that the proposed new bail-in power is used in a manner that also affects debt instruments issued by the Society, the dilutive effects described under "*Risks relating to the Banking Act 2009 and the proposed European Union resolution and recovery directive*" above will also impact holders of the CCDS to the extent that the bail-in of those debt instruments results in the issue of additional CCDS

In addition, the bail-in power includes the possibility that the authorities may require the Society to put in place a plan that contains specific measures designed to restore its long term viability and a timetable for their implementation.

As with the exercise of any other stabilisation option under the SRR, this proposed bail-in power is only available to be used in respect of Nationwide in circumstances in which authorities consider that its failure has become highly likely and a threat is posed to the public interest. Although any use of the power in relation to Nationwide may enable it to continue in existence, the associated write down or conversion of CCDS or debt instruments issued by the Society may result in the holders of the CCDS losing some or all of their investment. The exercise of any such power or any suggestion or anticipation of such exercise could, therefore, materially adversely affect the value of the CCDS.

The draft RRD also currently contains a specific power allowing resolution authorities to write down or convert capital instruments (a term which would include the CCDS) to ensure that such instruments fully absorb losses at the point of non-viability (**RRD Non-Viability Loss Absorption**). The draft RRD contemplates that it will be implemented in the UK and other EU Member States by 31 December 2014, with the RRD Non-Viability Loss Absorption provisions becoming effective as of 1 January 2015. The bail-in power contained in the draft RRD provides that the authorities may in certain circumstances require the write-down or conversion to Common Equity Tier 1 capital instruments of certain unsubordinated obligations of the relevant institution. This power is currently expected to be implemented not later than 1 January 2018. It is currently unclear whether any changes would be required to the UK bail-in power discussed above (if enacted) to implement the RRD. Accordingly, it is not yet possible to assess the full impact of the draft RRD on the CCDS and once it is implemented the exercise of any RRD bail-in power could materially and adversely affect the value of the CCDS.

If the Society is unable to issue CCDS at a price that is attractive to investors, or if there is a lack of demand for CCDS, the Society may be placed at a competitive disadvantage to its rivals who are not mutual institutions.

In common with other mutual institutions, the Society currently does not have access to an external instrument that qualifies under Basel III (as implemented by CRD IV as at the date of this Prospectus) as Common Equity Tier 1 capital. The CCDS are designed to qualify as Common Equity Tier 1 capital for the Society. However, as the CCDS are a new instrument, demand for CCDS from investors is as yet unproven. If there is a lack of demand for CCDS, the Society will be at risk of becoming constrained by its Common Equity Tier 1 capital position, may be unable to pursue its strategy and/or may be forced to take other actions to meet capital requirements. A lack of demand for CCDS may also impact the Society's ability successfully to issue further regulatory capital instruments in the future. If the return paid by the Society on the CCDS is above the returns that can be generated from applying the capital raised, this will reduce the financial resources available to Nationwide to offer consistent long-term good value to new and existing members and thus adversely impact Nationwide's competitive position and its ability to pursue its strategy. In turn, this may adversely impact Nationwide's financial and operational performance.

RISKS RELATED TO THE CCDS

CCDS are a novel financial instrument with complex features.

CCDS are a novel financial instrument. They are not protected liabilities for the purposes of the Financial Services Compensation Scheme. CCDS have been designed for building societies (which do not have ordinary share capital) to allow them to raise Common Equity Tier 1 Capital. Certain key features of the CCDS are as follows:

- CCDS are perpetual instruments. Holders of CCDS have no right to have their CCDS redeemed and the Society has no obligation or right to redeem the CCDS at any time;

- CCDS holders have no right to any Distributions on the CCDS (or to any particular level or frequency of payment of such Distributions, if paid) the declaration of which by the Board is wholly discretionary and may be restricted by applicable law and regulation. The Rules of the Society provide for an upper limit on the amount of Distributions which the Society is permitted to declare on each CCDS in respect of any financial year;

- the rights of CCDS holders to participate in the winding-up or dissolution of the Society are limited to (i) a deeply subordinated claim in respect of any declared, unconditional and unpaid Distributions (if any) on the CCDS at the time of the winding-up or dissolution, and (ii) a capped entitlement to share in surplus assets (if any) remaining in the Society after all depositors and creditors (including subordinated creditors) of the Society have been repaid in full;

- investors in CCDS will have no member voting rights at general meetings of the Society in respect of their CCDS whilst the CCDS are held through the Clearing Systems, and even if (which the Directors consider unlikely) CCDS in definitive form are issued and held directly by investors outside the Clearing Systems, their member voting rights at general meetings of the Society will be insignificant; and

- CCDS holders may have their holdings diluted by an issuance of additional CCDS by the Society. As statutory pre-emption rights do not apply to CCDS, the only pre-emption rights relating to the CCDS are those contained in the conditions of issue of the CCDS. However, these contractual pre-emption rights may be disapplied in a number of circumstances, including (among others) (i) issues of additional CCDS not exceeding 15 per cent. (in aggregate) of the number of outstanding CCDS in any financial year or (ii) where all or substantially all of the subscription price is paid otherwise than in cash.

As a provider of core capital to the Society, an investor in CCDS should be prepared to suffer losses on its investment if, in particular, the Society and/or the financial sector generally approaches or enters into a period of financial stress. Such losses could be manifested in a number of ways, including (without limitation):

- if the Society elects or is required to cease declaring Distributions (or to reduce the amount declared);

- if the market price of the CCDS falls significantly;

- if further CCDS or other regulatory capital instruments are issued which dilute (either initially or upon conversion into CCDS) the holdings of CCDS investors; and

- if, in a worst-case scenario, the United Kingdom authorities take action under the Banking Act 2009 (or similar future legislation) or the Society enters into an insolvent winding-up.

The CCDS are deeply subordinated instruments and holders of the CCDS will be entitled to only a limited share in any surplus assets of the Society on a winding-up of the Society.

The CCDS do not constitute a debt or a liability of the Society, and are the most junior-ranking investment in the Society. As a result, in the event of an insolvent winding-up or dissolution of the Society, an investor in CCDS will lose the entire amount of its investment and, even on a solvent winding-up or dissolution, an investor may recover none or only some of its investment.

The rights and limitations on the rights of an investor in CCDS on a winding-up or dissolution of the Society are as follows:

- ***Lowest ranking claim***: the claims of holders in respect of their CCDS will rank behind the claims of all depositors and creditors of the Society, including subordinated creditors. Accordingly, CCDS holders will not be entitled to receive any amounts in the winding-up or dissolution of the Society unless all depositors and creditors (including subordinated creditors) of the Society are first paid in full.

- ***Subordinated claim for declared but unpaid Distributions***: If, at the time of commencement of winding-up or dissolution, the Society has declared but not yet paid a Distribution, then (provided the Distribution is unconditional, or that any conditions stated to apply to the Distribution are fulfilled prior to commencement of winding-up or dissolution) holders will be entitled to claim for such Distribution. However, that claim will be deeply subordinated, and will rank behind the claims of all creditors (including subordinated creditors) of the Society.

- ***No other fixed claims***: Save for the claim (if any) in respect of a declared but unpaid Distribution, CCDS holders will not have a fixed claim in such winding-up or dissolution for the amount of their initial investment in CCDS (or for any other amount).

- ***Right to a proportionate and capped share in any Surplus***: CCDS holders will be entitled only to share in the surplus assets (if any) of the Society remaining following payment in full of the claims of all depositors and creditors (including subordinated creditors) of the Society (and, if applicable, after payment of the claim in respect of declared but unpaid Distributions), any such surplus assets being a **Surplus**. Any Surplus would be shared between the CCDS holders and other investing members of the Society on a proportionate basis. However, in the case of CCDS holders, the proportionate amount payable to them is subject to a cap, which may be less than an investor's initial investment in the CCDS even if there is ample Surplus available for distribution in the winding-up or dissolution. The Conditions contain provisions for determining the proportionate amount of Surplus which would be available for distribution amongst holders of the CCDS and the determination of the capped amount of Surplus which would be distributed per CCDS. Investors should also note that further issues of CCDS may have a dilutive effect on the amount which an investor would be eligible to receive on a winding-up or dissolution of the Society. See "*The Society is entitled, without the consent of the holders of the CCDS, to issue further CCDS and other instruments ranking in priority to the CCDS at any time. Any such further issue of CCDS and/or such other instruments may have a dilutive effect on existing CCDS*" below.

- ***No right of set off***: Holders of CCDS are not entitled, on any account, to set-off any amounts owing to them in respect of their CCDS against amounts owing by them to the Society.

The above factors mean that an investor in CCDS will lose its entire investment on an insolvent winding-up or dissolution of the Society and, even on a solvent winding-up or dissolution, an investor may recover none or only some of its investment.

CCDS are perpetual instruments and the Society has no obligation nor any right to redeem the CCDS. In addition, no secondary trading market exists for CCDS and none may develop. As a result, an investor in CCDS should be prepared to hold its CCDS for an indefinite period of time.

The CCDS constitute permanent non-withdrawable deferred shares (as defined in the Act) in the Society and have no maturity date. The Society has neither an obligation nor any right to redeem or, subject to limited exceptions related to purchases of CCDS, cancel the CCDS at any time and CCDS holders do not have any right to require the Society to redeem, purchase or cancel the CCDS. Any CCDS holder wishing to exit its investment would need to seek to sell its CCDS in the secondary market.

The CCDS are a new type of security for which no secondary trading market currently exists and there can be no assurance that one will develop. The CCDS contain features which may not align directly to the investment criteria of fixed income investors or traditional equity investors, including investors that have previously invested in mutual regulatory capital. If a market in the CCDS does develop, it may not be liquid and may be more volatile than markets for more conventional securities. Therefore, investors may not be able to sell their CCDS easily, or at prices that will provide them with a yield comparable to more conventional investments that have a developed secondary market. Market prices (if any are quoted) for the CCDS can go down as well as up, depending upon a number of factors including (without limitation) the actual or perceived financial condition of the Society and prevailing market conditions generally from time to time. There can be no assurance that an investor will be able to sell its CCDS at a price equal to or higher than the price at which it purchased such CCDS, and the price which an investor achieves upon selling its CCDS could be considerably lower than the price at which it purchased such CCDS. See "*The price of the CCDS may fluctuate which could lead to investors losing some or all of their investment*" below.

As a result of the absence of redemption rights or obligations in the terms of the CCDS and the uncertainties regarding secondary market trading in the CCDS, an investor in CCDS should be prepared to hold its CCDS for an indefinite period of time.

The declaration of Distributions by the Board is wholly discretionary and therefore investors in the CCDS cannot be assured of a regular (or any) return on their investment. In addition, the amount of any Distribution paid on the CCDS is entirely within the discretion of the Board and subject to a cap and other limitations.

The declaration of any Distributions from time to time by the Board is wholly discretionary at all times, and may be restricted by applicable law and regulation. With respect to any given financial year of the Society, the Board may declare an interim Distribution (an **Interim Distribution**) during such financial year and/or a final Distribution (a **Final Distribution**) in respect of such financial year. Interim Distributions and Final Distributions are independent, and accordingly whether or not the Board declares an Interim Distribution during any financial year shall have no effect or bearing on the Board's discretion whether or not to declare a Final Distribution in respect of that financial year (save that the amount of the Final Distribution (if any) declared in respect of a financial year shall not, when aggregated with any Interim Distribution paid in respect of that financial year, exceed the Cap referred to below). If at any time the Board elects to declare any Interim Distribution or Final Distribution, the amount of such Distribution will also be entirely within the discretion of the Board, subject to the restrictions on the maximum amount of any Distribution described below. The Society's distribution policy in respect of the CCDS may set out an indication of the level of Distributions which the Board expects to declare on the CCDS. Any such indication shall not be binding on the Board or the Society, and an election by the Board not to declare a Distribution (whether an Interim Distribution or a Final Distribution) in line with any stated expectation (or at all) shall not constitute a default under the CCDS or for any purpose. The Society will be entitled to amend the distribution policy at any time, in which case the Society will promptly publish the revised policy on its website. The Society intends to maintain a stable distribution policy, subject to such factors as the Board deems relevant, including (but not limited to) the Society's profitability, availability of distributable resources, business outlook, capital and liquidity and the adequate rewarding of CCDS holders, as well as the duty of the Board to act in the best interest of the Society and to have regard to the interests of all categories of the Society's members (of which CCDS holders form only one such category). If at any time the Board elects not to declare any Interim Distribution or Final Distribution, no Distribution or other amount in respect of the relevant period shall accumulate to CCDS holders or be payable at any time thereafter, and CCDS holders shall have no right to any Distribution or other amount in respect of such period. Further, Distributions may be declared that are, in whole or in part, subject to the satisfaction of one or more conditions. In such circumstances, if any such condition is not satisfied on or prior to the scheduled date for payment, such Distribution (or, if applicable, the relevant part of such Distribution) shall not accumulate to CCDS holders or be payable at any time thereafter.

Neither an election by the Board not to declare any Interim Distribution or Final Distribution, nor non-payment of any Distribution (or any part thereof) in respect of which a relevant condition to payment has not been satisfied on or before the scheduled payment date, shall constitute a default by the Society under the CCDS for any purpose, and neither event shall entitle CCDS holders to petition for the winding-up or dissolution of the Society.

Distributions can be paid only out of the aggregate of 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 Distribution (**Distributable Items**). The Society is not permitted to, and will not, declare a Distribution that is greater than the amount of Distributable Items available for payment of such Distribution. Changes to applicable law and regulation, including changes to the Act, could potentially have an impact on what items the Society may use for the purpose of paying Distributions. Further, Chapter 4 of CRD IV will, upon implementation, require the Society to maintain additional capital buffers which may be varied by the PRA from time to time comprising Common Equity Tier 1 capital on top of the minimum capital requirements. Pursuant to Article 141 of CRD IV, the Society will not be permitted to declare Distributions to an extent which would decrease its Common Equity Tier 1 capital to a level where the combined buffer requirement is not met and, if at any point the Society fails to maintain sufficient Common Equity Tier 1 capital to meet the combined buffer requirement, it will not be permitted to pay any Distributions in excess of a 'maximum distributable amount' calculated in accordance with Article 141. The Society's capital requirements (including individual guidance or, under CRD IV, Pillar 2A guidance) 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. Investors may not be able to predict accurately the proximity of the risk of distributions being prohibited from time to time as a result of the operation of Article 141 of CRD IV.

In addition, the total Distribution declared on each CCDS in respect of any given financial year of the Society (being the aggregate of the Interim Distribution (if any) and the Final Distribution (if any) declared in respect of such financial year) must not exceed the prevailing periodic investment returns cap (the **Cap**) determined in accordance with the Rules. The Rules provide that the initial Cap, which would have been applicable to Distributions in respect of the financial year to 4 April 2013 had CCDS been in issue during that financial year, was £15 per CCDS, and that (subject as stated below) in respect of each subsequent financial year the Cap will be adjusted for inflation (which, for the avoidance of doubt, would include negative inflation) by reference to the United Kingdom Consumer Price Index (**CPI**) (or any successor to that index). Such adjustment will be made by applying the CPI annual inflation percentage published by the Office for National Statistics in its statistical bulletin for the last full calendar month of the financial year in respect of which the Distributions are payable (being the percentage increase or decrease over the twelve months to and including that month) to the prevailing Cap. Accordingly, the Cap applicable to Distributions (if any) which may be declared in respect of the financial year to 4 April 2014 (in which regard, the Board is not currently targeting an interim Distribution payment in December 2013 but is currently targeting a final Distribution payment in June 2014) will be determined by applying the CPI annual inflation percentage published by the Office for National Statistics in its statistical bulletin for March 2014 to the initial Cap of £15. If at any time the adjustment of the Cap in the manner described above would prejudice the regulatory capital treatment of the CCDS, the Society will disapply those adjustment provisions and the Cap will remain at or, as the case may be, revert to £15 per CCDS.

Furthermore, notwithstanding the availability of sufficient Distributable Items, the Board will not declare any Distribution if the PRA requires the Society to refrain from making any Distributions on the CCDS at any time or whilst any specified circumstances subsist or during a specified period.

As a result of the above factors, investors in the CCDS may not receive a regular, or any, return on their investment in CCDS. In addition, if the Board elects not to declare a Distribution in respect of any given financial year, or any Distribution declared is lower than market expectations, this will be likely to have an adverse effect on the market price of the CCDS.

The Society is entitled, without the consent of the holders of the CCDS, to issue further CCDS and other instruments ranking in priority to the CCDS at any time. Any such further issue of CCDS and/or such other instruments may have a dilutive effect on existing CCDS.

The Society is entitled, without the consent or approval of the CCDS holders, to issue further CCDS that are consolidated and form a single series with the CCDS (**Additional CCDS**) and also to issue other instruments ranking in priority to the CCDS. Such instruments may include additional tier 1 or tier 2 capital convertible into CCDS including, but not limited to, in a stress scenario. An offering of Additional CCDS and/or any such other instruments may have a dilutive effect on the holdings of CCDS holders either at the time of issue or upon their subsequent conversion into CCDS, including as regards the amount of any Distributions they may receive in respect of the CCDS and as regards the amounts (if any) which they may receive on a winding-up or dissolution of the Society, and could have an adverse effect on the market price of CCDS.

On a winding-up or dissolution of the Society, issues of Additional CCDS and/or such other instruments could have a dilutive effect on an investment in CCDS by reducing the amount of Surplus (if any) available for distribution to CCDS holders and/or by reducing the proportionate entitlement to Surplus of each CCDS.

Statutory pre-emption rights do not apply to CCDS. Whilst the Conditions of the CCDS provide certain pre-emption rights for existing CCDS holders upon an issue of Additional CCDS, there are a number of circumstances in which such contractual rights may be disapplied, including: (i) issues of Additional CCDS in any financial year which, in aggregate, do not exceed 15 per cent. of the number of outstanding CCDS immediately prior to the start of such financial year; (ii) issues where all or substantially all of the subscription price is paid otherwise than in cash; (iii) issues of CCDS pursuant to any remuneration scheme operated by the Society; and (iv) issues of CCDS in circumstances in which the PRA or other relevant supervisory authority has directed the Society to disapply pre-emption rights. Pre-emption rights do not apply to any issue of securities convertible into CCDS. Accordingly, there can be no assurance that pre-emption rights will be available to an investor to mitigate any dilutive effects of issues of Additional CCDS or securities convertible into CCDS.

The CCDS are not protected liabilities of the Society and holders of the CCDS will not therefore benefit from the Financial Services Compensation Scheme.

The FSCS is described in paragraph 2.7 "*Financial Services Compensation Scheme*" of "*Part XIX: Supervision and regulation*" as 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 CCDS are not, however, Protected Liabilities of the Society and, accordingly, investors in CCDS will not have recourse to the FSCS for any amount in respect of their investment in CCDS in the event that the Society becomes insolvent.

Moreover, the CCDS are not guaranteed or insured by any government, government agency or compensation scheme of the United Kingdom or any other jurisdiction.

Risks relating to an amalgamation by the Society with another building society or transfer of its business to another building society or a company.

The Conditions provide that, 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 CCDS shall become deferred shares in the amalgamated or transferee building society, as appropriate (the **Resulting Society**), having such terms and conditions as are necessary to ensure that both the CCDS and any other deferred shares which, prior to such amalgamation or transfer, constituted Common Equity Tier 1 capital of the other society, shall constitute Common Equity Tier 1 capital of the Resulting Society and, subject thereto, in all material respects identical to the terms of the CCDS, as determined by an independent financial adviser.

It may be necessary, in such circumstances, for the terms of the CCDS and/or the rules of the Resulting Society to be amended in certain respects and/or for certain adjustments to be made to the Cap on Distributions and/or the calculations and/or formulae relating to the rights of investors to share in any Surplus on a winding-up or dissolution of the Society. Whilst it is the intention of the Society that, if and to the extent that the Society has control over such matters, any such amendments and adjustments should be limited to the minimum necessary in order to ensure that the CCDS and any other deferred shares of the other society which, prior to such amalgamation or transfer, constituted Common Equity Tier 1 capital of the other society, shall constitute Common Equity Tier 1 capital of the Resulting Society, there can be no assurance that such amendments and adjustments will not have an adverse effect on the rights attaching to the CCDS and/or the market price of the CCDS.

In addition, 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**), the Successor Entity will assume a subordinated liability to each holder of CCDS which will be applied on or around the vesting date, on behalf of the CCDS holders, in the subscription of such number of ordinary shares (which may or may not carry voting rights) in the Successor Entity or, if appropriate, any direct or indirect parent company of the Successor Entity. Whilst the number of shares to be delivered in such circumstance are required to have an aggregate market value as near as practicable to, but not less than, the market value of the CCDS immediately prior to the time of transfer of the business as determined by an independent financial adviser, there can be no assurance that the shares delivered in place of the CCDS will be as favourable in all respects to holders as the CCDS.

The members of the Society are entitled to amend the Rules of the Society, and there can be no assurance that such amendments will not be materially prejudicial to the interests of the CCDS holders.

The Conditions of the CCDS provide that such Conditions may only be varied with the consent of the holders of specified majorities of the CCDS for the time being outstanding. However, the Conditions do not limit the rights of members of the Society to amend the Rules. Whilst the Society will undertake in the Conditions not to initiate any amendment to the Rules that is both (a) inconsistent with the provisions of the Conditions and (b) materially prejudicial to the interests of the CCDS holders in that capacity, there can be no assurance that the members of the Society will not initiate and approve any such changes. The Conditions of the CCDS provide that, in the event that any changes which are materially prejudicial to the holders of the CCDS as a class are made to the Rules without the consent or approval of a requisite majority of CCDS holders, such changes shall not limit the rights of CCDS holders to bring an action for (or as if there had been a) breach of contract against the Society. However, there can be no assurance that such rights will afford adequate protection to CCDS holders in such circumstances and as a result holders of CCDS may experience material losses if the Rules are amended without their consent in a manner which is materially prejudicial to their interests.

Transfers of CCDS are subject to a Minimum Transfer Amount. CCDS holders who, as a result of trading CCDS, hold less than the minimum transfer amount in their accounts at any time will first need to purchase additional CCDS in order to enable them to transfer their existing holding of CCDS.

The CCDS will be transferable in whole numbers. The CCDS will be transferable only in amounts which are equal to or greater than a specified minimum transfer amount (the **Minimum Transfer Amount**) prevailing from time to time. The Minimum Transfer Amount is fixed at 250 CCDS and will not be reduced except in agreement with the Relevant Regulators. Purported trades of CCDS in a number less than the Minimum Transfer Amount prevailing at the relevant time will not be valid. If an investor, as a result of trading CCDS, holds less than the Minimum Transfer Amount in its clearing system or custodian account, it will first need to purchase additional CCDS in order to enable it to transfer its existing holding of CCDS.

It will not be possible for investors to transfer CCDS in amounts less than the Minimum Transfer Amount prevailing as at the time of transfer. The Clearing Systems will not accept instructions to settle transfers of CCDS in amounts less than the prevailing Minimum Transfer Amount, and (in the limited circumstances in which definitive CCDS are issued) the Registrar will not register in the CCDS Register any transfer of CCDS in definitive form in amounts less than the prevailing Minimum Transfer Amount. Accordingly, purported transfers of CCDS in amounts less than the prevailing Minimum Transfer Amount will be incapable of settlement. Investors in CCDS are responsible for ensuring that any trades they enter into in respect of the CCDS are capable of settlement; failure to do so may result in an investor breaching its contract of sale and purchase. Investors and potential investors in CCDS who are members of the London Stock Exchange are reminded of their obligations under the Rules of the London Stock Exchange, including rule G5000 (obligation to settle).

The proposed Standard Listing of the CCDS will afford investors a lower level of regulatory protection than a Premium Listing.

Application will be made for the CCDS to be admitted to the Standard Listing segment of the Official List. A Standard Listing will afford investors a lower level of regulatory protection than that afforded to investors in a company with a Premium Listing, which would also be subject to additional continuing obligations under the Listing Rules. Further details regarding the differences in the protections afforded by a Premium Listing as against a Standard Listing are set out in paragraph 11 "*Consequences of a Standard Listing*" of "*Part VI: Details of the Offer*".

Any change in English law or administrative practice or in United Kingdom taxation laws or practice that affects the CCDS could be prejudicial to the interests of holders of the CCDS.

The Conditions of the CCDS are based on English law in effect as at the date of this Prospectus. No assurance can be given as to the impact on the holders of the CCDS of any possible judicial decision or change to English law or administrative practice or in United Kingdom taxation laws or practice after the date of this Prospectus.

Investors in the CCDS will hold beneficial interests in the CCDS through an account with a Clearing System, will not be members of the Society by virtue of their investment in CCDS and must rely on the relevant Clearing System's procedures.

The CCDS will, upon issue, be represented by a global certificate which will be registered in the name of Citivic Nominees Limited as nominee (the **Nominee**) for the Clearing Systems. Investors in the CCDS will hold beneficial interests in the CCDS through an account with a Clearing System. However, the Nominee shall be the sole owner of legal title to the CCDS represented by the global certificate, and shall be the registered holder for those CCDS for the purposes of the Rules and the Conditions.

Accordingly, an investor holding beneficial interests in the CCDS through an account with a Clearing System will not become a member of the Society by virtue of its investment in the CCDS and will only indirectly benefit from the Conditions, the Rules, the Memorandum and the Act with respect to the CCDS through the Nominee. Such investor shall be entitled to rights in respect of its beneficial interest in the CCDS as prescribed by the rules of the relevant Clearing System and must rely on the procedures of the Clearing Systems to enforce its rights. The Society has no responsibility or liability for the records relating to beneficial interests in any CCDS.

The terms of the global certificate evidencing the CCDS will provide that definitive CCDS will only be issued outside the Clearing Systems and registered directly in the name of each investor in the event that all Clearing Systems have closed for business, which the Directors consider unlikely to occur.

The holding structure for CCDS has a number of consequences for investors, including with respect to member voting rights and rights to conversion benefits in the event of a demutualisation of the Society, as further described in the following two risk factors. In addition, for so long as the CCDS are represented by the global certificate, the Society's payment obligations in respect of the CCDS will be discharged upon payment by the Registrar or Principal Paying Agent, on behalf of the Society, to or to the order of the Nominee. Each person holding CCDS in an account with a Clearing System must look solely to that Clearing System for its share of each payment made to or to the order of the Nominee.

Investors will have no voting rights at general meetings of the members of the Society for so long as the CCDS are held through an account with a Clearing System.

In contrast to general meetings of shareholders of a limited company where shareholders may exercise voting rights which are proportionate to the number of shares they hold, at a general meeting of the members of the Society, each member is, in line with the principles of mutuality, entitled to only one vote (or, in applicable circumstances, one vote in its capacity as an investing member and one vote in its capacity as a borrowing member) regardless of the size or number of its investments or interests in the Society. Only a member of the Society is entitled to vote at general meetings.

For so long as any CCDS are held by the Nominee for and on behalf of the Clearing Systems, the Nominee shall be the only member of the Society in respect of those CCDS, and in its capacity as a member shall have only one vote at general meetings of the members of the Society (regardless of the number of CCDS it holds and regardless also of the size and number of any other relevant investments or interests (if any) it may have in the Society). Given the difficulty of casting its one vote in a manner which reflects the views of all the investors holding CCDS in an account with a Clearing System 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 CCDS.

Further, even if definitive CCDS were to be issued and delivered outside the Clearing Systems in the limited circumstances described above (in which case, the CCDS would be registered in the name of each holder directly and would confer membership rights directly upon each registered holder) each holder of definitive CCDS would be entitled to exercise only one vote (or, if applicable depending upon the circumstances of that particular member, one vote in its capacity as an investing member and one vote in its capacity as a borrowing member) 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 CCDS held by such holder and regardless also of the size and number of any other relevant investments or interests such holder may have in the Society. In circumstances where definitive CCDS are issued and a holder of CCDS derives its membership of the Society solely from its registered holding of CCDS, such holder will only be able to exercise its member vote at a general meeting of the Society if it held CCDS (a) at the end of the Society's financial year before the voting date, (b) on the voting qualification date and (c) on the voting date.

Accordingly, investors in CCDS will not, by virtue of their investment, have any voting rights at general meetings of the members of the Society unless definitive CCDS are issued and delivered (which the Directors consider is unlikely) in which case the limited voting rights acquired by each investor would be entirely insignificant in the context of the number of votes which could be cast by members of the Society as a whole.

For the avoidance of doubt, the foregoing paragraphs relate to voting rights as member at general meetings of the Society. The Conditions contain provisions which enable separate meetings to be convened of the CCDS holders as a class only, for the purposes of considering matters affecting the rights of the CCDS holders. At such class meetings only, investors in the CCDS will be entitled to exercise one vote for each CCDS held by such investor at the relevant time. Investors should note that such provisions provide that CCDS holders holding defined majorities of the number of CCDS outstanding are able to agree, by resolution in writing or passed at a duly convened meeting of the CCDS holders, to amendments to the Conditions which shall bind all CCDS holders, including those who do not vote in favour of the relevant resolution.

For so long as the CCDS are held in an account with a Clearing System, the Holders thereof will not be entitled to Conversion Benefits arising on a demutualisation or other transfer of the Society's business to a company.

As investors will hold their CCDS through accounts with the Clearing Systems and thus will not be members of the Society by virtue of their investment in CCDS, they will also not be entitled, by virtue of their investment in CCDS, to any Conversion Benefits (being benefits under the terms of any future transfer of the Society's business to a company, other than rights to receive ordinary shares issued by the successor entity or its parent, as specifically provided for under Condition 10) arising on a demutualisation or other transfer of the Society's business to a company. Any Conversion Benefits arising on any such transaction will belong instead to the Nominee, as the registered holder of the CCDS. The Nominee will, on or prior to the date of issue of the CCDS, agree to assign to The Nationwide Foundation (or other charities nominated by The Nationwide Foundation) any Conversion Benefits to which it would otherwise become entitled at any time.

Even if definitive CCDS were to be issued in the limited circumstances described under "*Investors in the CCDS will hold beneficial interests in the CCDS through an account with a Clearing System, will not be members of the Society by virtue of their investment in CCDS and must rely on the relevant Clearing System's procedures*" above, each holder of definitive CCDS would have no right to retain any Conversion Benefits and would be required pursuant to the Conditions to assign any Conversion Benefits to (or waive its right to receive any Conversion Benefits in favour of) The Nationwide Foundation (or other charities nominated by The Nationwide Foundation).

The trading price of the CCDS may fluctuate which could lead to investors losing some or all of their investment.

Following admission of the CCDS to trading on the London Stock Exchange, if a secondary trading market does develop for the CCDS, the trading price of the CCDS 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 CCDS. 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. Accordingly, and particularly relating to the fact that the CCDS are a new instrument, the market price of the CCDS may prove to be highly volatile. The market price of the CCDS may fluctuate significantly in response to a number of factors, some of which are beyond the Society's control, including (but not limited to) the following:

- material decreases in the Society's capital ratios 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;
- additions or departures of key personnel;
- any election by the Society not to declare a Distribution in respect of any given financial year, or the declaration of a Distribution which is lower than that expected by the market; and
- future issues or sales of CCDS or other securities.

Any or all of these events could result in material fluctuations in the price of CCDS, significantly increased price volatility and/or changes in the trading behaviour and performance of CCDS, which could lead to investors losing some or all of their investment.

In addition, investors in the CCDS should not necessarily expect the price of the CCDS to vary in response to factors that affect the UK financial services industry generally, such as, for example, changes in Bank of England base rates, in a manner that matches the variation in the share price of other UK financial institutions.

The initial issue and subscription price of the CCDS might not be indicative of prices that will prevail in the trading market and investors may not be able to resell their CCDS at or above the price at which they purchased CCDS.

An investment in CCDS by an investor whose principal currency is not sterling may be affected by exchange rate fluctuations.

The CCDS are denominated, and any Distributions in respect of the CCDS will be paid, in sterling. An investment in CCDS by an investor whose principal currency is not sterling exposes the investor to foreign currency exchange rate risk. Any depreciation of sterling in relation to such foreign currency will reduce the value of the investment in the CCDS or any Distribution in relation to such foreign currency.

Transfers of the CCDS with the Clearing Systems may become liable to UK stamp duty reserve tax.

The CCDS will constitute "chargeable securities" for UK stamp duty reserve tax (**SDRT**) purposes. However, on the basis of current United Kingdom tax law, transfers of CCDS within the Clearing Systems 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 CCDS. On 18 November 2013, the Society received confirmation from each Clearing System that the CCDS would be admitted to its systems without a 97A election applying to the CCDS. However, if a 97A election were to apply to the CCDS in the future, 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.

Foreign Account Tax Compliance withholding may affect payments on the CCDS.

Sections 1471 through 1474 of the U.S. Internal Revenue Code (**FATCA**) impose a new reporting regime and, potentially, a 30 per cent. withholding tax with respect to (i) certain payments from sources within the United States, (ii) "foreign passthru payments" made to certain non-U.S. financial institutions that do not comply with this new reporting regime, and (iii) payments to certain investors that do not provide identification information with respect to interests issued by a participating non-U.S. financial institution.

While the CCDS are in global form and held within the clearing systems, in all but the most remote circumstances, it is not expected that FATCA will affect the amount of any payment received by the clearing systems. However, FATCA may affect payments made to custodians or intermediaries in the subsequent payment chain leading to the ultimate investor if any such custodian or intermediary generally is unable to receive payments free of FATCA withholding. It also may affect payment to any ultimate investor that is a financial institution that is not entitled to receive payments free of withholding under FATCA, or an ultimate investor that fails to provide its broker (or other custodian or intermediary from which it receives payment) with any information, forms, other documentation or consents that may be necessary for the payments to be made free of FATCA withholding. Investors should choose their custodians or intermediaries with care (to ensure each is compliant with FATCA or other laws or agreements related to FATCA) and provide each custodian or intermediary with any information, forms, other documentation or consents that may be necessary for such custodian or intermediary to make a payment free of FATCA withholding. The Society's payment obligations under the CCDS are discharged once it (or the Registrar or Principal Paying Agent on its behalf) has made the relevant payment to or to the order of the Nominee for the clearing systems (as registered holder of the CCDS) and the Society has therefore no responsibility for any amount thereafter transmitted through the clearing systems and custodians or intermediaries. Prospective investors should refer to paragraph 4 "*Foreign Account Tax Compliance Act*" of *"Part XX: Taxation"*.

PART III – DIRECTORS, PRINCIPAL AND HEAD OFFICE AND ADVISERS

Directors

Geoffrey Howe*	Chairman
Roger Perkin	Senior Independent Director
Graham Beale	Chief Executive
Mark Rennison	Group Finance Director
Chris Rhodes	Group Retail Director
Tony Prestedge	Chief Operating Officer
Rita Clifton	Non-Executive Director
Michael Jary	Non-Executive Director
Alan Dickinson	Non-Executive Director
Mitchel Lenson	Non-Executive Director
Lynne Peacock	Non-Executive Director

Note:
* Geoffrey Howe has announced his intention to retire after the Society's annual general meeting in summer 2015.

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Joint Bookrunners	Barclays Bank PLC One Churchill Place Canary Wharf London E14 5HP United Kingdom
	J.P. Morgan Securities PLC 25 Bank Street Canary Wharf London E14 5JP United Kingdom
	Merrill Lynch International 2 King Edward Street London EC1A 1HQ United Kingdom
	UBS Limited 1 Finsbury Avenue London EC2M 2PP United Kingdom

Financial Adviser and Structuring Adviser	Rothschild New Court St. Swithin's Lane London EC4N 8AL United Kingdom
English Law Advisers to the Society	Allen & Overy LLP One Bishops Square London E1 6AD United Kingdom
English Law Advisers to the Joint Bookrunners	Linklaters LLP One Silk Street London EC2Y 8HQ United Kingdom
Reporting Accountants	PricewaterhouseCoopers LLP 1 Embankment Place London WC2N 6RH United Kingdom
Registrars	Citibank N.A., London Branch 13th floor, Citigroup Centre Canary Wharf London EC14 5LB United Kingdom
Auditors	PricewaterhouseCoopers LLP 7 More London Riverside London SE1 2RT United Kingdom

PART IV – REASONS FOR OFFER AND USE OF PROCEEDS, EXPECTED TIMETABLE OF PRINCIPAL EVENTS AND OFFER STATISTICS

1. REASONS FOR OFFER AND USE OF PROCEEDS

In common with other financial institutions, the Society is required by law to maintain certain levels of capital to absorb losses in times of financial stress. To date, the Society's regulatory capital has mainly comprised retained profit which has been built up over many years. From time to time, this has been supplemented by issuing Permanent Interest Bearing Shares, which have also constituted regulatory capital, to external investors.

In response to the global financial crisis, regulators are requiring all financial institutions to hold more core capital and are changing the eligibility rules for capital instruments. Permanent Interest Bearing Shares currently in issue will have their tier 1 capital benefit amortised over a period starting from the implementation of CRD IV on 1 January 2014 until 31 December 2021. In the absence of any other developments, the Society would have to rely solely on retained profit to increase its core capital base.

Although retained profit has generally met its needs, there may be circumstances where it will be in the best interests of Nationwide to raise core capital from external investors, for example, to support its strategic growth ambitions or to help it to meet new regulatory requirements.

In order to ensure that it retains the flexibility to access external capital, the Society proposes to issue the CCDS, an instrument which possesses the necessary features to qualify as Core Tier 1 capital under currently applicable capital regulations and as Common Equity Tier 1 capital under CRD IV.

As at 30 September 2013, Nationwide's Core Tier 1 capital ratio was 14.2 per cent. and its Common Equity Tier 1 capital ratio was 11.0 per cent. In addition its Basel II total capital ratio was 20.0 per cent. as at the same date.

2. EXPECTED TIMETABLE OF PRINCIPAL EVENTS

Publication of Prospectus	22 November 2013
Latest date for receipt of indications of interest from investors in respect of the Offer	on or after 27 November 2013 (and no later than 4 December 2013)
Announcement of allocations of CCDS	on or after 27 November 2013 (and no later than 4 December 2013)
Announcement of the issue size, indicative interim and final Distribution figures for the financial year ended 4 April 2013 and expected final Distribution payment in June 2014	on or after 27 November 2013 (and no later than 4 December 2013)
Euroclear/Clearstream accounts credited	on or after 6 December 2013 (and no later than 13 December 2013)
Admission and commencement of dealings	8 a.m. on or after 9 December 2013 (and no later than 16 December 2013)

It is expected that each of the relevant events stated above and mentioned throughout this document (other than publication of the Prospectus) will fall within the period stated in connection with the event, although the period start and end dates may be subject to change without further notice. References to times are to London time unless otherwise stated. Temporary documents of title will not be issued.

Details of the final number of CCDS subject to the Offer will be announced via a Regulatory Information Service and set out in the Statement. The Statement will not automatically be sent to persons who receive this Prospectus, but will be available free of charge at the principal office of the Society at Nationwide House, Pipers Way, Swindon SN38 1NW, United Kingdom. In addition, the Statement will, subject to certain restrictions, be published in electronic form and be available on the Society's website at www.nationwide.co.uk.

3. OFFER STATISTICS

Offer Price (per CCDS)	£100
Maximum number of CCDS being offered	5,000,000
CCDS subject to Over-allotment Option(1)	750,000
Maximum number of CCDS in issue immediately following the Offer(2)	5,750,000
Estimated net proceeds of the Offer receivable by the Society after expenses(3)	£478 million

Notes:

(1) The number of CCDS subject to the Over-allotment Option is 15 per cent. of the aggregate number of CCDS (excluding any available in the Over-allotment Option) issued on Admission.

(2) Calculated on the basis that the Over-allotment Option is exercised in full.

(3) The estimated net proceeds receivable by the Society pursuant to the Offer are stated after deduction of the estimated underwriting commissions and other fees, taxes and expenses payable by the Society which are expected to be an amount up to approximately £22 million. The estimated net proceeds assume that the Over-allotment Option is not exercised.

PART V – PRESENTATION OF INFORMATION

1. GENERAL

Investors should rely only on the information in this Prospectus. No person has been authorised to give any information or to make any representations other than those contained in this Prospectus in connection with the Offer and, if given or made, such information or representations must not be relied upon as having been authorised by or on behalf of the Society, the Directors or the Banks. No representation or warranty, express or implied, is made by any Bank or any selling agent as to the accuracy or completeness of such information, and nothing contained in this Prospectus is, or shall be relied upon as, a promise or representation by the Banks or any selling agent as to the past, present or future. Without prejudice to any obligation of the Society to publish a supplementary prospectus pursuant to section 87G of the FSMA and PR 3.4.1 of the Prospectus Rules, neither the delivery of this Prospectus nor any subscription or sale made under this Prospectus shall, under any circumstances, create any implication that there has been no change in the business or affairs of the Society or of Nationwide taken as a whole since the date hereof or that the information contained herein is correct as of any time subsequent to its date.

In the event the Society is required to publish a supplementary prospectus pursuant to section 87G of FSMA and paragraph 3.4 of the Prospectus Rules, prospective investors will have a statutory right to withdraw their acceptance to subscribe for or purchase CCDS in the Offer before the end of a period of two working days commencing on the first working day after the date on which the supplementary prospectus is published pursuant to section 87Q of the FSMA.

The contents of this Prospectus are not to be construed as legal, business or tax advice. Each prospective investor should consult his or her own lawyer, financial adviser or tax adviser for legal, financial or tax advice in relation to any subscription, purchase or proposed subscription or purchase of CCDS.

In connection with the Offer, the Banks and any of their respective affiliates, acting as investors for their own accounts, may subscribe for and/or purchase CCDS, and in that capacity may retain, purchase, sell, offer to sell or otherwise deal for their own account in CCDS and other securities of the Society or related investments in connection with the Offer or otherwise. Accordingly, references in this Prospectus to the CCDS being issued, offered, subscribed, acquired, placed or otherwise dealt in should be read as including any issue or offer to issue or subscription, acquisition, underwriting or dealing by any Bank and any of its affiliates acting as an investor for its own account. The Banks do not intend to disclose the extent of any such investment or transactions otherwise than in accordance with any legal or regulatory obligation to do so. In addition, certain of the Banks or their affiliates may enter into financing arrangements (including swaps or contracts for differences) with investors in connection with which such Banks (or their affiliates) may from time to time acquire, hold or dispose of CCDS.

The Banks and any of their respective affiliates may have engaged in transactions with, and provided various investment banking, financial advisory and other services for, the Society, for which they would have received customary fees. The Banks and any of their respective affiliates may provide such services to the Society and any of its respective affiliates in the future.

None of the Society, the Directors or the Banks, or any of their respective affiliates, is making any representation to any offeree or purchaser of the CCDS regarding the legality of an investment by such offeree or purchaser.

Neither this Prospectus nor any other information supplied in connection with the issue of the CCDS is intended to provide the basis of any credit or other valuation and should not be considered as a recommendation by the Society, the Directors or any of the Banks that any recipient of either this Prospectus, or of any other information supplied in connection with this Prospectus or the issue of the CCDS, should purchase any CCDS. Each investor contemplating purchasing the CCDS should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Society. Neither this Prospectus nor any other information supplied in connection with this Prospectus or the issue of the CCDS constitutes an offer or invitation by or on behalf of the Society, the Directors or any of the Banks, to any person, to subscribe for or to purchase any CCDS.

Apart from the responsibilities and liabilities, if any, which may be imposed on the Banks by the FSMA or the regulatory regime established thereunder or any other applicable regulatory regime, the Banks accept no responsibility whatsoever for the contents of this Prospectus or for any other statement made or purported to be made in it, in connection with the Society, the CCDS or the Offer. The Banks accordingly disclaim all and any liability whether arising in tort, contract or otherwise (save as referred to above) which they might otherwise have in respect of the Prospectus or any such statement.

Prior to making any decision as to whether to subscribe for or purchase the CCDS, prospective investors should read this Prospectus in its entirety, and in particular *"Part II: Risk factors"*. In making an investment decision, prospective investors must rely upon their own examination of the Society and the terms of this Prospectus, including the risks involved.

2. PRESENTATION OF FINANCIAL INFORMATION

Prospective investors should consult their own professional advisers to gain an understanding of the financial information contained in this Prospectus. An overview of the basis for presentation of financial information in this Prospectus is set out below.

Consolidated Historical Financial Information

Financial information in this Prospectus comprises unaudited information for Nationwide for the six month periods ended 30 September 2013 and 30 September 2012 and audited information for the financial years ended 4 April 2013, 4 April 2012 and 4 April 2011 and has been extracted without material adjustment from:

- the Society's consolidated financial statements as at, and for the years ended, 4 April 2013, 4 April 2012 and 4 April 2011 set out in Section B of "*Part XVIII: Financial information*" (the **Consolidated Annual Financial Information**); and
- the Society's consolidated financial statements as at, and for the six month periods ended, 30 September 2013 and 30 September 2012 set out in Section C of "*Part XVIII: Financial information*" (the **Consolidated Interim Financial Information** and, together with the Consolidated Annual Financial Information, the **Consolidated Historical Financial Information**).

The Consolidated Historical Financial Information has been prepared in accordance with the requirements of the Prospectus Directive and the UK Listing Rules and in accordance with IFRS and, in the case of the Consolidated Interim Financial Information, International Accounting Standard 34, "Interim Financial Reporting", as adopted by the European Union.

In accordance with the requirements of the Prospectus Rules, certain adjustments have been made to the Consolidated Annual Financial Information so that it is presented in accordance with the accounting policies that will be adopted by Nationwide in the preparation of its consolidated financial statements as at, and for the financial year ended, 4 April 2014. These adjustments have been made to reflect the requirements of:

- Amendments made to IFRS 7 (Disclosures – Offsetting Financial Assets and Financial Liabilities). The amendments require disclosure of the effects or potential effects of netting arrangements on an entity's financial position, including financial instruments that are subject to an enforceable master netting or similar arrangement.
- Amendments made to IAS 19 (Employee Benefits). The amendments update the recognition, presentation and disclosures of retirement benefit plans. The most significant impact for Nationwide is the replacement of the expected return on plan assets and interest cost with a single measurement of net interest income (or expense) based on the net retirement benefit asset (or obligation).

In addition, adjustments have been made to the presentation of Nationwide's segmental results in the Consolidated Historical Financial Information as a result of an update in funding costs due to a change in capital allocation methodology.

As a result of these adjustments, there are differences between the Consolidated Annual Financial Information included in this document and the consolidated financial statements included in the Society's published annual report and accounts for the financial years ended 4 April 2013, 4 April 2012 and 4 April 2011.

In the Consolidated Interim Financial Information, Nationwide has adopted IAS 19 (Revised) with effect from 5 April 2013. The changes have been applied retrospectively and the comparative information for the six months ended 30 September 2012 has been restated accordingly. Note 2 to the Consolidated Interim Financial Information contains a summary of the line item restatements for the six months ended 30 September 2012. These restatements only affect the Income Statement and the Statement of Comprehensive Income.

The Society's consolidated financial statements for the three financial years ended 4 April 2013 have been audited by PricewaterhouseCoopers LLP, independent auditors, in accordance with International Standards on Auditing (UK & Ireland) issued by the Auditing Practices Board in the United Kingdom. The Society's consolidated financial statements for the six month periods ended 30 September 2013 and 30 September 2012 have been reviewed by PricewaterhouseCoopers LLP in accordance with International Standard on Review Engagements (UK and Ireland) 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board for use in the United Kingdom as stated in the unqualified review report included in "*Part XVIII: Financial information*".

All information in this Prospectus as at, or for the six month periods ended, 30 September 2013 and 30 September 2012 is unaudited.

Prospective investors should be aware that IFRS and generally accepted accounting procedures in the United Kingdom (**UK GAAP**) differ from each other in certain significant respects. The Consolidated Historical Financial Information has not been reconciled to UK GAAP. Nationwide has not prepared any financial information in accordance with UK GAAP nor a reconciliation or quantification of differences between IFRS and UK GAAP. Investors are encouraged to contact their own financial advisors if they have any questions with respect to UK GAAP.

In addition, certain financial information in this Prospectus also comprises unaudited financial information which has been extracted without material adjustment from the accounting records of Nationwide which form the underlying basis of the financial information referred to in "*Part XVIII: Financial information*". In particular, financial information included within "*Part XVI: Selected Statistical Information*" is unaudited and has been extracted from Nationwide's management information systems.

Certain non-IFRS financial information

Capital and leverage ratios

This Prospectus includes references to new leverage ratios to be applied under CRD IV and by the PRA as well as references to new CRD IV and PRA capital ratios, such as the Common Equity Tier 1 ratio. The most recent regulatory guidance in relation to these matters is the PRA's Consultation Paper CP5/13 "Strengthening capital standards: implementing CRD IV". Although this consultation has closed, final rules are not expected to be published until December 2013. As a result, information regarding CRD IV-based measures has been calculated based on Nationwide's current interpretation of CRD IV, which is not yet in force, and its view of the likely final rules to be published by the PRA in December 2013.

Although the CRD IV-based measures included in this Prospectus are not IFRS measures, Nationwide believes that they are important to understanding the background of, and rationale for, the Offer as well as Nationwide's capital and leverage position in light of the anticipated implementation of CRD IV and the introduction of the PRA's leverage ratio target. Nationwide's interpretation of CRD IV and the basis of its calculation of CRD IV-based measures may be different from those of other financial institutions.

Underlying profit before tax

Certain sections of this Prospectus, including "*Part XIII: Selected financial information*" and "*Part XIV: Operating and financial review*", discuss underlying profit before tax, which is not a measure of financial performance under IFRS. In determining underlying profit before tax, Nationwide adjusts reported profit before tax for certain items which the Society regards as subject to one-off volatility or as otherwise not being reflective of Nationwide's ongoing business activities. These items are the costs of the Financial Services Compensation Scheme, bank levy charges and restructuring costs (each of which is added back to reported underlying profit before tax) and losses or gains from derivatives and hedge accounting (which are respectively added to or deducted from reported underlying profit before tax). Accordingly, the purpose of disclosing underlying profit before tax is to present the Society's view of Nationwide's underlying performance with like for like comparisons of performance across each financial year. However, underlying profit before tax is not a measure of financial performance under IFRS and should not be considered in isolation or as a substitute for operating profit, cash flow from operating activities or other financial measures of Nationwide's results of operations or liquidity computed in accordance with IFRS. Other companies, including those in Nationwide's industry, may also calculate underlying financial performance measures differently from Nationwide. As all companies do not calculate these financial measures in the same manner, Nationwide's presentation of such financial measures may not be comparable to other similarly titled measures of other companies.

The following table sets out a reconciliation of reported profit before tax to underlying profit before tax for each of the six month periods ended 30 September 2013 and 30 September 2012.

	Six months ended 30 September	
£ millions	**2013**	**2012**
Reported profit before tax	**270**	**103**
Financial Services Compensation Scheme and bank levy charges	11	2
Restructuring costs	35	11
Losses from derivatives and hedge accounting	16	14
Underlying profit before tax	**332**	**130**

The following table sets out a reconciliation of reported profit before tax to underlying profit before tax for each of the three financial years ended 4 April 2013.

	Financial year ended 4 April		
£ millions	**2013**	**2012**	**2011**
Reported profit before tax	**168**	**166**	**285**
Financial Services Compensation Scheme and bank levy charges	84	75	50
Restructuring costs	16	61	29
Losses/(gains) from derivatives and hedge accounting	165	(35)	(120)
Underlying profit before tax	**433**	**267**	**244**

3. CURRENCIES

Unless otherwise indicated, in this Prospectus, all references to:

- **US dollars**, **dollars**, **USD, U.S.$** or **cents** are to the lawful currency of the United States;
- **euro** or **€** are to the lawful currency of the European Union (as adopted by certain member states); and
- **pounds sterling**, s**terling** or **£** are to the lawful currency of the United Kingdom.

Unless otherwise indicated, the financial information contained in this Prospectus has been expressed in pounds sterling. Nationwide's functional currency is pounds sterling and Nationwide prepares its financial statements in pounds sterling.

4. FORWARD-LOOKING STATEMENTS

Certain information contained or incorporated by reference in this Prospectus including any information as to Nationwide's strategy, plans or future financial or operating performance constitute "forward-looking statements". These forward-looking statements can be identified by the use of forward-looking terminology, including the terms "believes", "estimates", "anticipates", "projects", "expects", "intends", "aims", "plans", "predicts", "may", "will", "seeks" or "should" or, in each case, their negative or other variations or comparable terminology, or by discussions of strategy, plans, objectives, goals, future events or intentions. These forward-looking statements include all matters that are not historical facts. They appear in a number of places throughout this Prospectus and include statements regarding the intentions, beliefs or current expectations of the Directors concerning, amongst other things: Nationwide's results of operations, financial condition, prospects, growth, strategies and the industry in which Nationwide operates.

By their nature, forward-looking statements involve risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future. Forward-looking statements are not guarantees of future performance. Nationwide's actual results of operations, financial condition, and the development of the financial services industry in which Nationwide operates, may differ materially from those suggested by the forward-looking statements contained in this Prospectus. In addition, even if Nationwide's results of operations, financial condition, and the development of the financial services industry are consistent with the forward-looking statements contained in this Prospectus, those results or developments may not be indicative of results or developments in subsequent periods.

Prospective investors are advised to read, in particular, "*Part II: Risk factors*", "*Part X: Description of Nationwide's business*", "*Part XIV: Operating and financial review*", "*Part XVII: Risk management*" and "*Part XVIII: Financial information*" for a more complete discussion of the factors that could affect Nationwide's future performance and the financial services industry. Forward-looking statements and other statements contained in this Prospectus regarding matters that are not historical facts involve predictions. No assurance can be given that such future results will be achieved; actual events or results may differ materially as a result of risks and uncertainties facing Nationwide. In light of these risks, uncertainties and assumptions, the events described in the forward-looking statements in this Prospectus may not occur.

The forward-looking statements contained in this Prospectus speak only as of the date of this Prospectus. The Society, the Directors and the Banks expressly disclaim any obligation or undertaking to update or revise publicly any forward-looking statements, whether as a result of new information, future events or otherwise, unless required to do so by applicable law, the Prospectus Rules, the Listing Rules, or the Disclosure and Transparency Rules of the FCA. All subsequent written and oral forward-looking statements attributable to the Group or individuals acting on behalf of the Group are expressly qualified in their entirety by this paragraph.

5. MARKET, ECONOMIC AND INDUSTRY DATA

The Prospectus contains information regarding Nationwide's business and the industry in which it operates and competes, which the Society has obtained from third-party sources.

Nationwide and other institutions operating in the financial services industry make available a wide range of financial and operational information to regulatory and market bodies, including the Bank of England and the Council of Mortgage Lenders. These bodies use certain of the data supplied to publish market share statistics relating to retail mortgage lending and savings, among other matters. However, no assurance can be made that the information reported to these bodies by different market participants is, in all cases, directly comparable.

In some cases, independently determined industry data is not available. In these cases, any Nationwide market share included in this Prospectus is referred to as having been estimated. All such estimates have been made by Nationwide using its own information and other market information which is publicly available. All such estimations have been made in good faith based on the information available and Nationwide's knowledge of the market within which it operates.

Where third-party information has been used in this Prospectus, the source of such information has been identified. In the case of the presented economic and statistical information, similar information may be obtainable from other sources, although the underlying assumptions and methodology, and consequently the resulting data, may vary from source to source.

The Society confirms that all information extracted from third party sources has been accurately reproduced and, as far as the Society is aware and has been able to ascertain from information published by those sources, no facts have been omitted which would render the reproduced information inaccurate or misleading. Where third party information has been used in this Prospectus, the source of such information has been identified.

Where information has not been independently sourced, it is the Society's own information.

6. NO INCORPORATION OF WEBSITE INFORMATION

The Society's website is www.nationwide.co.uk. The information on this website or any website mentioned in this Prospectus or any website directly or indirectly linked to these websites has not been verified and is not incorporated by reference into this Prospectus and investors should not rely on it.

7. DEFINITIONS

Certain capitalised and other terms used in this Prospectus are defined in "*Part XXII: Definitions*".

8. ROUNDING

Certain data in this Prospectus has been rounded. As a result of such rounding, the totals of data presented in tables in this Prospectus may vary slightly from the arithmetic totals of such data.

9. BUILDING SOCIETIES AND BANKS

For a discussion of certain key differences between UK building societies and banks, see "*Part IX: Industry Overview"*.

10. CREDIT RATING AGENCIES

This prospectus contains references to Moody's, Fitch and S&P.

Each of Moody's, S&P and Fitch is established in the European Union and is registered under the CRA Regulation. A credit rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation.

PART VI – DETAILS OF THE OFFER

1. CCDS SUBJECT TO THE OFFER

Pursuant to the Offer, the Society will issue up to 5,000,000 CCDS (or up to 5,750,000 CCDS if the Over-allotment Option is exercised in full). Excluding the Over-allotment Option, the Society intends to raise up to approximately £478 million (based on the Offer Price), after deduction of taxes, underwriting commissions and other fees and expenses of up to approximately £22 million payable by the Society.

2. THE OFFER

Under the Offer, the CCDS will be offered to certain institutional and professional investors in the United Kingdom and elsewhere outside the United States in reliance on Regulation S under the Securities Act or another exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. The distribution of this Prospectus and the offer and sale of the CCDS are subject to the restrictions set out in paragraph 12 "*Selling restrictions*" below.

The latest time and date for indications of interest in acquiring CCDS under the Offer are set out at paragraph 2 "*Expected timetable and principal events*" of "*Part IV: Reasons for the Offer and use of proceeds, expected timetable of principal events and Offer statistics*" but that time may be extended at the discretion of the Joint Bookrunners (with the agreement of the Society). Participants in the Offer will be advised verbally or by electronic mail of their allocations as soon as practicable following determination of the issue size and allocation.

Prospective investors in the Offer will be contractually committed to acquire the number of CCDS allocated to them at the Offer Price and, to the fullest extent permitted by law, will be deemed to have agreed not to exercise any rights to rescind or terminate, or otherwise withdraw from, such commitment.

By accepting an allocation of CCDS, each investor will be deemed to acknowledge, represent and agree that (a) it is a qualified investor within the meaning of Article 2(1)(e) of Directive 2003/71/EC (and any amendments thereto) and any relevant implementing measures, which is either (i) purchasing the CCDS to be held for its own account; or (ii) acting in a discretionary capacity for the benefit of one or more third parties or funds; and (b) if in the United Kingdom, it is an "investment professional" for the purposes of Article 19 of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005.

The distribution of this Prospectus and the offer and sale of the CCDS are subject to the restrictions set out in paragraph 12 "*Selling restrictions*" below.

Under the Offer, all CCDS will be issued at the Offer Price.

3. UNDERWRITING

The Society, the Directors, and the Joint Bookrunners have entered into the Underwriting Agreement pursuant to which, on the terms and subject to certain conditions contained in the Underwriting Agreement which are customary for agreements of this nature (including that the Society and Joint Bookrunners enter into a final terms memorandum confirming the number of CCDS to be issued in the Offer), the Joint Bookrunners have severally agreed to use reasonable endeavours to procure subscribers for the CCDS under the Offer and, failing which, the Joint Bookrunners have severally agreed to subscribe for themselves (in agreed proportions) the CCDS under the Offer. Allocations under the Offer will be determined jointly by the Joint Bookrunners and the Society after indications of interest from prospective investors have been received.

The Offer is conditional upon Admission becoming effective and the Underwriting Agreement becoming unconditional in all respects and not having been terminated in accordance with its terms.

The Underwriting Agreement provides for the Joint Bookrunners to be paid a commission based on the overall proceeds of the Offer. The Society and the Directors have given the Joint Bookrunners certain customary representations, warranties and undertakings and, in the case of the Society, indemnities.

Further details of the terms of the Underwriting Agreement are set out in paragraph 11 "*Underwriting arrangements*" of "*Part XXI: Additional information*".

4. BOOKBUILDING AND ALLOCATION

The Joint Bookrunners will solicit from prospective investors indications of interest in acquiring CCDS under the Offer. Prospective investors will be required to specify the number of CCDS which they would be prepared to acquire at the Offer Price. There is no maximum number of CCDS which can be applied for under the Institutional Offer. However, under the terms of the CCDS a transfer of CCDS will not be valid, and will not be registered in the CCDS register, unless the number of CCDS transferred is a whole number that is equal to or greater than the minimum transfer amount prevailing at the time of transfer. The minimum transfer amount is 250 CCDS. The minimum transfer amount is fixed and will not be reduced except in agreement with the Relevant Regulators.

Allocations under the Offer will be determined jointly by the Society and the Joint Bookrunners. A number of factors will be considered in determining the basis of allocation, including the level and nature of demand for the CCDS in the Offer and the objective of establishing an orderly and liquid after-market in the CCDS. If there is excess demand for CCDS, allocations may be scaled down and applicants may be allocated CCDS in a number or that is less than that applied for. Such CCDS may be allocated at the discretion of the Society and the Joint Bookrunners acting jointly. In such event, there is no obligation for such CCDS to be allocated proportionately (and some applicants may receive no CCDS).

Completion of the Offer will be subject, among other things, to the satisfaction of conditions contained in the Underwriting Agreement including Admission occurring, and to the Underwriting Agreement not having been terminated. The Offer cannot be terminated once dealings in the CCDS have commenced. Further details of the Underwriting Agreement are set out in paragraph 11 "*Underwriting arrangements*" of *"Part XXI: Additional information*."

5. WITHDRAWAL RIGHTS

In the event that the Society is required to publish any supplementary prospectus, applicants who have applied for CCDS in the Offer shall have at least two clear business days following the publication of the relevant supplementary prospectus within which to withdraw their offer to subscribe for or purchase CCDS in the Offer in its entirety. The right to withdraw an application to subscribe for or purchase CCDS in the Offer in these circumstances will be available to all investors. If the application is not withdrawn within the stipulated period, any application for CCDS in the Offer will remain valid and binding. Any supplementary prospectus will not automatically be distributed to prospective investors but will be published in accordance with the Prospectus Rules (and notification thereof will be made through a Regulatory Information Service). Any such supplementary prospectus will be available in printed form free of charge at the principal office of the Society and at the offices of the Joint Bookrunners until 28 days after Admission. Details of how to withdraw an application will be made available if a supplementary prospectus is published.

6. STABILISATION AND OVER-ALLOTMENT OPTION

In connection with the Offer, the Society has granted the Stabilising Manager the Over-allotment Option, pursuant to which the Stabilising Manager may require the Society to make available additional CCDS of up to 15 per cent. of the aggregate number of CCDS available in the Offer (before any exercise of the Over-allotment Option) at the Offer Price to cover over-allotments, if any, made in connection with the Offer. The Over-allotment Option may be exercised, in whole or in part, at any time during the period commencing with the date of publication of the Statement and ending on the third business day immediately prior to the date of Closing.

In connection with the Offer, the Joint Bookrunners may over-allot or effect other transactions with a view to supporting the market price of the CCDS at a level higher than that which might otherwise prevail for a period commencing on the date of publication of the Statement and ending on the third business day immediately prior to the date of Closing. Such transactions may be effected in the over-the-counter markets. There is no obligation on the Joint Bookrunners to undertake stabilisation transactions. Such transactions, if commenced, may be discontinued at any time and must be brought to an end on the third business day immediately prior to the date of Closing. Save as required by law, the Joint Bookrunners do not intend to disclose the extent of any stabilisation transactions under the Offer.

7. LOCK-UP ARRANGEMENTS

The Society has agreed to certain lock-up arrangements, including not to, for a period of 45 days following Admission, issue or dispose of any CCDS without the consent of the Joint Bookrunners.

8. DEALING ARRANGEMENTS

Admission is expected to become effective, and dealings in the CCDS are expected to commence on the London Stock Exchange, at 8.00 a.m. on or after 9 December 2013 but not later than 16 December 2013.

9. DETAILS RELATING TO HOW CCDS TO BE HELD IN CLEARING SYSTEMS

The CCDS will, upon issue, be represented by a global certificate which will be registered in the name of the Nominee for the Clearing Systems. Investors in the CCDS will hold beneficial interests in the CCDS through an account with a Clearing System, and transfers of book-entry interests in the CCDS will be effected through the records of the Clearing Systems and their respective participants in accordance with the rules and procedures of the Clearing Systems and their respective participants.

The Nominee shall be the sole owner of legal title to the CCDS represented by the global certificate, and shall be the registered holder for those CCDS for the purposes of the Rules and the Conditions. Accordingly, an investor holding beneficial interests in the CCDS through an account with a Clearing System will not become a member of the Society by virtue of its investment in the CCDS and will only indirectly benefit from the Conditions, the Rules, the Memorandum or the Act with respect to the CCDS through the Nominee. Such investor shall be entitled to rights in respect of its beneficial interest in the CCDS as prescribed by the rules of the relevant Clearing System and must rely on the procedures of such relevant clearing systems to enforce its rights.

The terms of the global certificate evidencing the CCDS will provide that definitive CCDS will only be issued outside the Clearing Systems and registered directly in the name of each investor in the event that all Clearing Systems have closed for business, which the Directors consider unlikely to occur.

The holding structure for CCDS has a number of consequences for investors, including with respect to member voting rights and rights to conversion benefits in the event of a demutualisation of the Society as described in *"Part II: Risk Factors"* under *"Investors in the CCDS will hold beneficial interests in the CCDS through an account with a Clearing System, will not be members of the Society by virtue of their investment in CCDS and must rely on the relevant Clearing System's procedures"*, *"Investors will have no voting rights at general meetings of the members of the Society for so long as the CCDS are held through an account with a Clearing System"* and *"For so long as the CCDS are held in an account with a Clearing System, the Holders thereof will not be entitled to Conversion Benefits arising on a demutualisation or other transfer of the Society's business to a company"*.

For so long as the CCDS are represented by the global certificate, the Society's payment obligations in respect of the CCDS will be discharged upon payment by the Registrar or the Principal Paying Agent, on behalf of the Society, to or to the order of the Nominee. Each person holding CCDS in an account with a Clearing System must look solely to that Clearing System for its share of each payment made to or to the order of the Nominee.

10. CONDITIONALITY OF THE OFFER

The Offer is subject to the satisfaction of conditions which are customary for capital markets transactions contained in the Underwriting Agreement, including the absence of any breach of representation or warranty, no material adverse change affecting Nationwide's business and no adverse market conditions as described in the Underwriting Agreement and Admission becoming effective by no later than 8.00 a.m. on 23 December 2013. See paragraph 11 "*Underwriting arrangements*" of "*Part XXI: Additional information*" for further details about the underwriting arrangements.

11. CONSEQUENCES OF A STANDARD LISTING

APPLICATION WILL BE MADE FOR THE CCDS TO BE ADMITTED TO THE STANDARD LISTING SEGMENT OF THE OFFICIAL LIST. A STANDARD LISTING AFFORDS INVESTORS IN THE CCDS A LOWER LEVEL OF REGULATORY PROTECTION THAN THAT AFFORDED TO INVESTORS IN COMPANIES WHOSE SECURITIES ARE ADMITTED TO THE PREMIUM LISTING SEGMENT OF THE OFFICIAL LIST, WHICH ARE SUBJECT TO ADDITIONAL OBLIGATIONS UNDER THE LISTING RULES.

While the CCDS have a Standard Listing, Nationwide is not required to comply with the provisions of, among other things:

- Chapter 8 of the Listing Rules regarding the appointment of a listing sponsor to guide Nationwide in understanding and meeting its responsibilities under the Listing Rules in connection with certain matters;
- Chapter 10 of the Listing Rules relating to significant transactions which require shareholder consent for certain acquisitions;
- Chapter 11 of the Listing Rules regarding related party transactions;
- Chapter 12 of the Listing Rules regarding purchases by Nationwide of its own securities; and
- Chapter 13 of the Listing Rules regarding the form and content of circulars to be sent to investors.

12. SELLING RESTRICTIONS

The distribution of this Prospectus and the offering and sale of CCDS in certain jurisdictions may be restricted by law and therefore persons into whose possession this Prospectus comes should inform themselves about and observe any such restrictions, including those in the paragraphs that follow. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdiction. No action has been taken or will be taken in any jurisdiction that is intended to permit a public offering or sale of the CCDS, or possession or distribution of this Prospectus or any other offering or publicity material relating to the CCDS, in any country or jurisdiction where action for that purpose is required.

None of the CCDS may be offered for subscription, sale, purchase or delivery, or be subscribed, sold, purchased or delivered, and this Prospectus and any other offering material in relation to the CCDS may not be circulated, in any jurisdiction where to do so would breach any securities laws or regulations of that jurisdiction or give rise to an obligation to obtain any consent, approval or permission, or to make any application, filing or registration.

European Economic Area

In relation to each Relevant Member State, an offer to the public of any CCDS may not be made in that Relevant Member State prior to the publication of a prospectus in relation to the CCDS which has been approved by the competent authority in relation to that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in the Relevant Member State, all in accordance with the Prospectus Directive, except that an offer to the public in that Relevant Member State of any CCDS may be made at any time under the following exemptions under the Prospectus Directive, if they have been implemented in that Relevant Member State:

(a) to any legal entity which is a qualified investor as defined under the Prospectus Directive;

(b) to fewer than 100, or, if the Relevant Member State has implemented the relevant provisions of the 2010 PD Amending Directive, 150, natural or legal persons (other than qualified investors as defined in the Prospectus Directive), subject to obtaining the prior consent of the Banks; or

(c) in any other circumstances falling within Article 3(2) of the Prospectus Directive, provided that no such offer of CCDS shall result in a requirement for the Society or any Bank to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive and each person who initially acquires any CCDS or to whom any offer is made pursuant to (a) above will be deemed to have represented, warranted and agreed to and with the Banks and the Society that it is a qualified investor within the meaning of the law in that Relevant Member State implementing Article 2(1)(e) of the Prospectus Directive.

For the purposes of this provision, the expression an **offer to the public** in relation to any CCDS in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the Offer and any CCDS to be offered so as to enable an investor to decide to purchase any CCDS, as the same may be varied for that Relevant Member State by any measure implementing the Prospectus Directive in that Relevant Member State.

Each of the Joint Bookrunners has severally (and not jointly, nor jointly and severally) represented, warranted and undertaken to the Society that:

(a) it has complied and will comply with all applicable provisions of FSMA with respect to anything done by it in relation to the CCDS in, from or otherwise involving the United Kingdom; and

(b) it has only communicated or caused to be communicated and will only communicate or cause to be communicated in the United Kingdom any invitation or inducement to engage in investment activity (within the meaning of Section 21 of FSMA) received by it in connection with the issue or sale of the CCDS in circumstances in which Section 21(1) of FSMA would not, if the Society was not an authorised person, apply to the Society.

United States of America

None of the CCDS have been or will be registered under the Securities Act or the securities laws of any state or other jurisdiction in the United States and, subject to certain exceptions, the CCDS may not be offered or sold within the United States. Accordingly, the Joint Bookrunners have agreed to offer and sell the CCDS only outside the United States in reliance on Regulation S. Terms used in this paragraph have the meanings given to them under Regulation S.

Japan

The CCDS have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Law No. 25 of 1948, as amended) (the **FIEA**). The CCDS may not be offered or sold directly or indirectly, in Japan or to, or for the benefit of, any resident in Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organised under the laws of Japan), or to others for reoffering or resale, directly or indirectly, in Japan or to, or for the benefit of, a resident of Japan except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the FIEA and any other applicable laws, regulations and ministerial guidelines of Japan.

Australia

This Prospectus has not been, and will not be, lodged with the Australian Securities and Investments Commission as a disclosure document for the purpose of the Corporations Act 2001. This Prospectus does not purport to include the information required of a disclosure document under Chapter 6D of the Corporations Act 2001.

No CCDS may be offered for sale (or transferred, assigned or otherwise alienated) to investors in Australia for at least 12 months after this issue, except in circumstances where disclosure to investors is not required under Chapter 6D of the Corporations Act 2001 or unless a disclosure document that complies with the Corporations Act 2001 is lodged with the Australian Securities and Investments Commission.

Each investor acknowledges the above and, by applying for securities under this Prospectus, gives an undertaking not to sell those securities (except in the circumstances referred to above) to investors in Australia for 12 months after their issue.

Hong Kong

No CCDS have been offered or sold or will be offered or sold in Hong Kong, by means of any document, other than (a) to "professional investors" as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong (the **Securities and Futures Ordinance**) and any rules made under that Ordinance; or (b) in other circumstances which do not result in the document being a "prospectus" as defined in the Companies Ordinance (Cap. 32) of Hong Kong or which do not constitute an offer to the public within the meaning of that Ordinance. No advertisement, invitation or document relating to the CCDS has been issued or has been in the possession of any person for the purposes of issue, nor will any such advertisement, invitation or document be issued or be in the possession of any person for the purpose of issue, whether in Hong Kong or elsewhere, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to CCDS which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" as defined in the Securities and Future Ordinance and any rules made under the Securities and Future Ordinance.

Singapore

This Prospectus or any other material relating to the CCDS has not been and will not be registered as a prospectus with the monetary authority of Singapore. Accordingly, this Prospectus and any other document or material in connection with the offer or sale, or invitation for subscription or purchase of securities of the Society may not be circulated or distributed, nor may any securities be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to any person in Singapore other than: (a) to an institutional investor under Section 274 of the Securities and Futures Act, Chapter 289, of Singapore (the **Securities and Futures Act**); (b) to a relevant person or any pursuant to Section 275(1A) of the Securities and Futures Act, and in accordance with the conditions specified in Section 275 of the Securities and Futures Act; or (c) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the Securities and Futures Act.

Where CCDS are subscribed for or purchased under Section 275 by a relevant person which is: (a) a corporation (which is not an accredited investor) (as defined in Section 4A of the Securities and Futures Act) 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, CCDS (as defined in Section 239(1) of the Securities and Futures Act) 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 CCDS pursuant to an offer made under Section 275 except to an institutional investor or to a relevant person as defined in Section 275(2) of the Securities and Futures Act, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the Securities and Futures Act: (i) where no consideration is or will be given for the transfer; (ii) where the transfer is by operation of law; or (iii) as specified in Section 276(7) of the Securities and Futures Act.

Switzerland

The CCDS may not be publicly offered in Switzerland and will not be listed on the SIX Swiss Exchange or on any other stock exchange or regulated trading facility in Switzerland. This Prospectus has been prepared without regard to the disclosure standards for issuance prospectuses under art. 652a or art. 1156 of the Swiss Code of Obligations or the disclosure standards for listing prospectuses under art. 27 ff. of the SIX Listing Rules or the listing rules of any other stock exchange or regulated trading facility in Switzerland. Neither this Prospectus nor any other offering or marketing material relating to the CCDS or the Offer may be publicly distributed or otherwise made publicly available in Switzerland.

Neither this Prospectus nor any other offering or marketing material relating to the Offer, the Society or the CCDS have been or will be filed with or approved by any Swiss regulatory authority. In particular, this document will not be filed with, and the offer of CCDS will not be supervised by, the Swiss Financial Market Supervisory Authority FINMA, and the offer of CCDS has not been and will not be authorised under the Swiss Federal Act on Collective Investment Schemes (the **CISA**). The investor protection afforded to acquirers of interests in collective investment schemes under the CISA does not extend to acquirers of CCDS.

Jersey

There shall be no circulation in Jersey of any offer for subscription, sale or exchange of the CCDS unless (a) such offer does not for the purposes of Article 8 of the Control of Borrowing (Jersey) Order 1958, as amended, constitute an offer to the public; or (b) an identical offer is for the time being circulated in the United Kingdom without contravening the Financial Services and Markets Act 2000 and is, mutatis mutandis, circulated in Jersey only to persons similar to those to whom, and in a manner similar to that in which, it is for the time being circulated in the United Kingdom.

Guernsey

To the extent to which any promotion of the CCDS is deemed to take place in Guernsey, the CCDS are only being promoted in or from within the Bailiwick of Guernsey either (i) by persons licensed to do so under the Protection of Investors (Bailiwick of Guernsey) Law, 1987 (as amended) or (ii) to persons licensed under the Protection of Investors (Bailiwick of Guernsey) Law, 1987 (as amended), the Insurance Business (Bailiwick of Guernsey) Law, 2002 (as amended), the Banking Supervision (Bailiwick of Guernsey) Law, 1994 (as amended) or the Regulation of Fiduciaries, Administration Businesses and Company Directors, etc. (Bailiwick of Guernsey) Law, 2000 (as amended). Promotion is not being made in any other way.

13. DISTRIBUTION POLICY

The Society's Board of Directors has set the following policy in respect of Distributions to be declared in respect of the CCDS. The ranges set out below for past and expected future Distributions will be updated based on feedback from institutional investors during the Offer period and a notice specifying the final figures within each range will be published on the Society's website and through a regulatory information service before the CCDS are allocated to investors:

When determining the interim or final Distributions (if any) to be declared in respect of the CCDS in respect of any given financial year, the Board will have regard to all relevant factors which it considers to be appropriate, including:

- the profitability of the Society and its resources available for distribution;
- the outlook for the Society's business, its short-term and long-term viability and the impact on the Society of the macro-economic environment in the UK, including inflation;
- the capital and liquidity position of the Society at the time of declaring the Distribution;
- the value to the Society of the capital provided by CCDS holders and rewarding investment in the capital of the Society in a commercially responsible manner, having regard to the risks inherent in such investments and the Society's need to maintain access to capital in the future;
- the benefits received by other members of the Society through the operation of the Society's business in accordance with the principles of mutuality; and
- the cap on Distributions under the Society's Rules,

and subject always to applicable law and regulation and the following overriding fiduciary duties and principles:

- the duty of the Directors to act in the best interests of the Society;
- the duty of the Directors to have due regard to the interests of all categories of member, both current and future, of the Society; and
- the principles of mutuality that apply by virtue of being a building society.

If the CCDS had been in issue for the financial year ended 4 April 2013, and taking into account the policy set out above, the Board is likely to have declared an interim Distribution in the range of £4.75 to £5.75 per CCDS for payment in December 2012 and a final Distribution in the range of £4.75 to £5.75 per CCDS for payment in June 2013.

Given the expected timing of the issue of CCDS within the Society's financial cycle, the Board currently expects to make a final Distribution payment in June 2014 which, based on the indication above, would be in the range of £4.75 to £5.75 per CCDS.

The Board currently expects, under normal circumstances, to adopt a stable distribution policy and therefore expects that the distribution level indicated above would be appropriate for future years, subject to Nationwide's current and anticipated financial position being viewed as satisfactory.

The indications stated above are not binding on the Society and the Board will have absolute discretion (subject to applicable law and regulation) whether or not to declare any interim or final Distribution in respect of any financial year and, if any such Distribution is declared, the amount of such Distribution. Accordingly, in respect of any given financial year, the Board may elect not to declare any Distributions, or may declare an interim and/or a final Distribution, and any such Distribution may be higher (subject to the cap on Distributions under the Society's Rules) or lower than the indications stated above.

PART VII — OVERVIEW OF CERTAIN PROVISIONS OF THE RULES OF THE SOCIETY AND THE ACT RELATING TO THE CORE CAPITAL DEFERRED SHARES

The rights and restrictions attaching to the Core Capital Deferred Shares 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 Core Capital Deferred Shares (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 CCDS holders, 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 (core capital) investment) is an investing member of the Society. The CCDS are a deferred share (core capital) investment for the purposes of the Rules and therefore a person whose name is entered in the CCDS Register (as defined below) as a CCDS holder is an investing member of the Society.

Each CCDS holder, 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 CCDS will be held by investors through accounts with a Clearing System and will be registered in the name of the Nominee who shall be the CCDS holder for the purposes of the Rules and the Conditions. An investor holding beneficial interests in the CCDS through a Clearing System will not be a member of the Society by virtue of its investment in the CCDS 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 CCDS in the manner provided above. Investors holding beneficial interests in the CCDS through a Clearing System shall be entitled to the rights in respect of their beneficial interests as prescribed by the rules of that Clearing System.

Registration of title to CCDS in a name other than that of the Nominee will be permitted only if all the Clearing Systems 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 CCDS remain held in accounts with a Clearing System, references in this Part to "CCDS holders" 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 CCDS (the **CCDS Register**), in which shall be entered the name and address of each CCDS holder. Each CCDS holder 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 CCDS shall also be recorded in the CCDS Register. No charge shall be made in respect of any entry in the CCDS Register. The CCDS 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 has appointed Citibank, N.A., London Branch at 13th Floor, Citigroup Centre, Canada Square, Canary Wharf, London E14 5LB as its registrar for the CCDS.

3. DISTRIBUTIONS

Cap on Distributions

The CCDS are a deferred share (core capital) investment for the purposes of the Rules. The Rules provide that any deferred share (core capital) investment must be issued on terms that limit the amount of the periodic investment returns (**Distributions**) that may be paid on such investment in respect of any given financial year to not more than the applicable periodic investment returns cap (the **Cap**), in order to protect the reserves of the Society.

The Rules provide that the initial Cap, which would have been applicable to Distributions in respect of the financial year to 4 April 2013 had CCDS been in issue during that financial year, was £15 per CCDS, and that (subject as stated below) in respect of each subsequent financial year the Cap will be adjusted for inflation by reference to the United Kingdom Consumer Price Index (overall index, 2005=100) (**CPI**) published by the Office for National Statistics (or any successor to that index). Such adjustment will be made by applying the CPI annual inflation percentage published by the Office for National Statistics in its statistical bulletin for the last full calendar month of the financial year in respect of which the Distributions are payable (being the percentage increase or decrease over the twelve months to and including that month) to the prevailing Cap. Accordingly, the Cap applicable to Distributions (if any) which may be paid in respect of the financial year to 4 April 2014 (in which regard, the Board is not currently targeting an interim Distribution payment in December 2013 but is currently targeting a final Distribution payment in June 2014) will be determined by applying the CPI annual inflation percentage published by the Office for National Statistics in its statistical bulletin for March 2014 to the initial Cap of £15. If the CPI ceases to be published and no direct successor or replacement index is published, the Board shall be entitled to determine an appropriate replacement index for determining future inflation-based adjustments to the Cap, and shall have sole discretion to determine any modifications to the method of determining inflation-based adjustments to the Cap during the transition from CPI to the replacement index. The Society shall in each year determine the adjustment to the Cap promptly following publication of the relevant CPI (or successor or replacement index) data by the Office for National Statistics (or such successor or other organisation as may be responsible for publishing official data with respect to the relevant index) and will notify the members of the Society of the adjusted Cap not later than at the first Annual General Meeting following publication of the relevant data. In the event that adjustment of the Cap in the manner described above would prejudice the regulatory capital treatment of the CCDS, the Society will disapply those adjustment provisions and the Cap will revert to £15 per CCDS.

Distribution Policy

The Rules also provide that the Board may determine and from time to time publish the policy of the Society in relation to the Distributions on any deferred share (core capital) investments and shall have regard to the ongoing profitability and long-term viability of the Society, the need for the Society to ensure that it has adequate capital resources and such other factors as the Board considers appropriate.

4. MEETINGS OF THE MEMBERS OF THE SOCIETY

As an investing member of the Society, each CCDS holder will, subject to the provisions of the Rules, enjoy various membership rights. In particular, CCDS holders 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 CCDS holder will be entitled to exercise one vote (irrespective of the number of CCDS held by it or the size or number 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 CCDS holder held the CCDS:

(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 CCDS held through the Clearing Systems will be held by the Nominee. Such Nominee will be entered in the CCDS Register as the holder of CCDS held in this manner, and will be entitled to exercise the voting and other members' rights attributable to all those CCDS so held. Accordingly, the Nominee shall have one vote (regardless of the number of CCDS 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) 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 CCDS through the Clearing Systems 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 CCDS.

The foregoing provisions relate to general meetings of the members of the Society. For provisions relating to the convening of separate meetings of the CCDS holders only, see Condition 12 and "Meetings; membership rights whilst the CCDS are held through Clearing Systems" under "Overview of provisions relating to the CCDS while represented by the Global CCDS Certificate" in "Part VIII: Conditions of issue of the Core Capital Deferred Shares".

5. 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.

On a winding-up or dissolution of the Society, the rights of the CCDS holders to participate in the winding-up or dissolution will, subject as provided in Condition 4.8, be limited to an entitlement to share, to the extent and in the manner provided in the Conditions, in the Surplus (if any) of the Society remaining following payment of all amounts in respect of Liabilities of the Society and any amounts payable pursuant to Condition 4.8. If there are insufficient assets of the Society to pay all amounts in respect of Liabilities of the Society, no payment shall be made to the CCDS holders in the winding-up or dissolution of the Society.

The liability of a CCDS holder to contribute to the winding-up or dissolution of the Society is limited to the amount which has been actually paid, or the amount (if any) which is in arrear, on such holder's CCDS. For these purposes, amounts would only be in arrear on CCDS if, and to the extent that, the Nominal Amount and Premium Amount (each as defined in the Conditions) payable in respect of such CCDS on issue had not been paid in full. As the CCDS will be paid up in full upon issue, there will be no liability of holders of CCDS to further contribute in the winding-up or dissolution of the Society.

6. 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.

PART VIII – CONDITIONS OF ISSUE OF THE CORE CAPITAL DEFERRED SHARES

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

The Core Capital Deferred Shares (the **CCDS**, which term shall include any further core capital deferred shares issued pursuant to Condition 13 which are consolidated and form a single series with the CCDS) are issued under the Rules (the **Rules**) of Nationwide Building Society (the **Society**) for the time being. CCDS holders are entitled to the benefit of, are bound by and are deemed to have notice of, the Rules. The CCDS 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 on or around 6 December 2013 between the Society and Citibank, N.A., London Branch as registrar and transfer agent (in such capacities, the **Registrar**, which term shall include any other registrar and transfer agent appointed by the Society in respect of the CCDS from time to time) and principal paying agent (in such capacity, the **Principal Paying Agent**, which term shall include any other principal paying agent appointed by the Society in respect of the CCDS from time to time). 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. CCDS holders are bound by and are deemed to have notice of all the provisions of the Agency Agreement applicable to them.

The CCDS will be held through accounts with the Clearing Systems and will only be issued in definitive form in the very limited circumstances described under "Overview of provisions relating to the CCDS while represented by the Global CCDS Certificate – Exchange of the Global CCDS Certificate and registration of title". While CCDS are held on behalf of investors through an account with a Clearing System, CCDS will be registered in the name of the Nominee. The Nominee shall be the CCDS holder for all of the CCDS for the purposes of the Conditions, and not the investors holding beneficial interests in the CCDS through the Clearing Systems. The investors holding the beneficial interests in CCDS through Clearing System accounts shall be entitled to the rights in respect of their beneficial interests as prescribed by the rules of the relevant Clearing System.

1. GENERAL

1.1 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 in Condition 17.

1.2 The CCDS:

(a) are deferred shares for the purposes of section 119 of the Building Societies Act 1986, as amended (the **Act**);

(b) are not protected deposits for the purpose of the Financial Services Compensation Scheme established under the Financial Services and Markets Act 2000 as amended (the **FSMA**);

(c) are not withdrawable; and

(d) are deferred share (core capital) investments for the purposes of the Rules.

1.3 By purchasing CCDS, each CCDS holder agrees to assign any rights to Conversion Benefits to which it may become entitled by reason of its holding of CCDS to a charity nominated by the Society pursuant to any scheme for charitable assignment established by the Society for the time being. For these purposes, **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 ordinary shares issued by the Successor Entity or its parent, as specifically provided for under Condition 10) 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 If a CCDS holder fails to assign any Conversion Benefits as required pursuant to Condition 1.3, it acknowledges that, by purchasing CCDS, it waives its entitlement to retain any Conversion Benefits received by it and covenants promptly to pay and deliver such 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 the beneficial interests in CCDS through Clearing System accounts will not, by virtue of such holding, be members of the Society they will not be entitled to any Conversion Benefits by virtue of such holding. Any Conversion Benefits relating to the CCDS will belong instead to the Nominee, as the registered holder of the CCDS in the CCDS Register. The Nominee will, on or prior to date of issue of the CCDS, irrevocably agree to assign to The Nationwide Foundation (or other charities nominated by The Nationwide Foundation) any Conversion Benefits.

2. FORM, TITLE AND TRANSFER

2.1 Form

The CCDS are in registered form and have a nominal value of £1 each (the **Nominal Amount**). The CCDS are transferable in accordance with the Rules and subject to Condition 2.2.

In the event that a CCDS is subscribed at a price higher than the Nominal Amount, the difference between the subscription price and the Nominal Amount shall constitute CCDS premium (the **Premium Amount**).

2.2 Title and transfer

Title to the CCDS passes only by registration in the CCDS Register. The holder of any CCDS 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 other interest or any writing on, or the theft or loss of, the CCDS Certificate issued in respect of it) and no person will be liable for so treating the holder.

CCDS are transferable in whole numbers and no CCDS may be transferred in part. A transfer of CCDS will not be valid, and will not be registered in the CCDS Register, unless the number of CCDS transferred is equal to or greater than the specified minimum transfer amount (the **Minimum Transfer Amount**) prevailing at the time of transfer. The initial Minimum Transfer Amount is 250 CCDS. The Minimum Transfer Amount may be reduced in agreement with the Relevant Regulators upon not less than 30 nor more than 60 days' notice to CCDS holders in accordance with Condition 14. The Minimum Transfer Amount prevailing from time to time will be published on the Society's website.

No legal transfer of a CCDS shall be valid unless made in the form endorsed on the CCDS Certificate or in such other form as the Board may agree, which form shall be duly completed and signed (as appropriate) and presented to the Registrar. Legal title to the CCDS will pass upon registration of such transfer in the CCDS Register and, if so requested in writing by the registered holder, the Registrar shall, on behalf of the Society, issue a CCDS Certificate in respect of such holding (which will be made available at the specified office of the Registrar).

It will not be possible for investors to transfer CCDS in amounts less than the Minimum Transfer Amount prevailing as at the time of transfer. The Clearing Systems will not accept instructions to settle transfers of CCDS in amounts less than the prevailing Minimum Transfer Amount, and (in the limited circumstances in which definitive CCDS are issued) the Registrar will not register in the CCDS Register any transfer of CCDS in definitive form in amounts less than the prevailing Minimum Transfer Amount. Accordingly, purported transfers of CCDS in amounts less than the prevailing Minimum Transfer Amount will be incapable of settlement. Investors in CCDS are responsible for ensuring that any trades they enter into in respect of the CCDS are capable of settlement; failure to do so may result in an investor breaching its contract of sale and purchase. Investors and potential investors in CCDS who are members of the London Stock Exchange are reminded of their obligations under the Rules of the London Stock Exchange, including rule G5000 (obligation to settle).

Any decision by the Society to propose a reduction in the Minimum Transfer Amount to the Relevant Regulators will be based on all relevant factors at the time, which may include (if it is the case) the fact that an established trading market has developed for the CCDS which would enable a wider range of investors to better assess whether or not CCDS would be a suitable investment for them. The Society does not expect to make any such proposal in the near term or to make such proposals frequently.

2.3 CCDS Certificates

A certificate (each a **CCDS Certificate**) will, if so requested in writing by such CCDS holder, be issued to each CCDS holder in respect of its registered holding of CCDS. Each CCDS Certificate will be numbered serially with an identifying number which will be recorded on the relevant CCDS Certificate and in the CCDS Register, and will specify the number of CCDS registered in the name of such holder(s).

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

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

Except in the limited circumstances described under "Overview of provisions relating to the CCDS while represented by the Global CCDS Certificate — Exchange of the Global CCDS Certificate and registration of title", owners of interests in the CCDS will not be entitled to receive physical delivery of CCDS Certificates.

2.4 Formalities free of charge

Registration of transfer of CCDS 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. CCDS REGISTER

3.1 The Society has appointed the Registrar to act as registrar and transfer agent in respect of the CCDS under the terms of the Agency Agreement.

3.2 Pursuant to the Agency Agreement, the Society shall procure that the Registrar maintains the CCDS Register, in which shall be entered the name and address of each CCDS holder. Each CCDS holder 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 A CCDS holder 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 CCDS Certificate to such CCDS holder.

3.4 Transfers and other documents or instructions relating to or affecting the title of any CCDS shall be recorded in the CCDS Register. No charge shall be made in respect of any entry in the CCDS Register or any change in relation to such entry. The CCDS 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

4.1 Status and subordination

The CCDS constitute direct, unsecured and subordinated investments in the Society and, on a winding-up or dissolution of the Society, rank (a) *pari passu* among themselves and with any other investments ranking or expressed to rank *pari passu* with the CCDS (provided that participation of CCDS holders in the Surplus (as defined in Condition 4.2) will be in the manner and proportion described in this Condition 4), and (b) junior to (i) all Liabilities of the Society and (ii) any claims in respect of declared, unconditional and unpaid Distributions in accordance with Condition 4.8 and claims ranking or expressed to rank *pari passu* therewith.

4.2 Rights on a winding-up or dissolution

On a winding-up or dissolution of the Society, the rights of the holders of Outstanding CCDS to participate in the winding-up or dissolution shall, save as provided in Condition 4.8, be limited to an entitlement to share, to the extent and in the manner provided in Condition 4.3, in the surplus assets (if any) of the Society remaining (**Surplus**) following payment of all amounts in respect of Liabilities of the Society and any amounts payable pursuant to Condition 4.8 and claims ranking or expressed to rank *pari passu* therewith, provided that such entitlement shall be capped at the Average Principal Amount per CCDS as provided in Condition 4.7.

4.3 Distribution of Surplus

In the event of a distribution of Surplus, such Surplus shall, subject to Condition 4.7, be shared without preference as to priority between:

(a) CCDS holders (whose entitlement shall be for such amount as will, upon such sharing of the Surplus, result in CCDS holders receiving, in respect of each CCDS held which is Outstanding at the Relevant Time, an amount equal to (i) the Core Capital Contribution Share determined in accordance with Condition 4.4 or, if less (ii) the Average Principal Amount determined as at the Relevant Time in accordance with Condition 4.5);

(b) those investing members who have held share investments (other than deferred share investments) of at least £100 continuously for two years (whose entitlement shall be calculated based on the amount of their share investments at the Relevant Time) (where **investing member**, **share investment** and **deferred share investment** have their respective meanings given in the Rules);

(c) (unless the terms of the relevant deferred shares otherwise provide) holders of any other deferred shares in the Society at the Relevant Time (whose entitlement (if any) shall be calculated based on and subject to the terms of issue of such deferred shares); and

(d) any other persons entitled to share in the surplus assets in accordance with the Rules from time to time (whose entitlement shall be calculated based on and subject to the Rules).

In these Conditions, **Relevant Time** means (i) the time at which an instrument or order is made (including, without limitation, an order made under a building society insolvency or building society special administration (each as defined in the Act)) or an effective resolution is passed for the winding-up or (otherwise than by virtue of section 93(5) (dissolution following an amalgamation with one or more building societies by the establishment of a successor building society), section 94(10) (dissolution following transfer of all engagements to another building society) or section 97(9) or (10) (dissolution following transfer of the whole business to a company) of the Act) dissolution of the Society, or (ii) such other time as may be specified by the administrator, receiver, liquidator or other insolvency official appointed with primary responsibility for the winding-up or dissolution of the Society.

4.4 Core Capital Contribution Share

This Condition 4.4 determines the amount of any Surplus the CCDS holders will be eligible to receive upon a winding-up of the Society (unless the amount calculated in accordance with this Condition 4.4 exceeds the Average Principal Amount per CCDS calculated in accordance with Condition 4.5, in which case CCDS holders will instead be eligible to receive the Average Principal Amount for each CCDS held). For the avoidance of doubt, if the Society is wound up and there is no Surplus, CCDS holders will not be eligible to receive any amount pursuant to this Condition 4.4 or Condition 4.5.

The calculation in Condition 4.4(b) determines the relative contribution proportion (expressed as a percentage) of the CCDS holders (as a class) to the total Common Equity Tier 1 Capital of the Society from time to time. This Core Capital Contribution Proportion will be adjusted upon recalculation from time to time to reflect any additional issues of CCDS pursuant to Condition 13 and any cancellations of CCDS. If the Society is wound up in circumstances where a Surplus is available for distribution, Condition 4.4(a) provides that the CCDS holders (as a class) would be eligible to receive such share (i.e. percentage) of that Surplus as is equal to the Core Capital Contribution Proportion prevailing at that time, which amount would be shared amongst the CCDS holders pro rata based on the number of CCDS they hold.

In addition to recognising new issues and cancellations of CCDS from time to time, the calculation in Condition 4.4(b) also recognises that the CCDS holders have a notional proportionate interest in the profits and losses of the Society on an ongoing basis: each time the calculation is repeated, the section of the formula "$(CCCP_{DT-1} \text{ x Core Capital}_{DT})$*" effectively apportions to outstanding CCDS a notional interest in the appropriate proportion of profits generated or losses incurred (recognised as increases or decreases in Common Equity Tier 1 Capital) in the period between the previous calculation and the current calculation. The amount of those profits or losses attributed to the CCDS is based on the Core Capital Contribution Proportion prevailing at the time those profits were generated or losses incurred. Thus all CCDS will have a notional proportionate interest in the profits and losses of the Society from their time of issue (subject, on a winding-up or dissolution, to Condition 4.5). For the avoidance of doubt, the calculation is relevant for determining the proportion of any Surplus that CCDS holders would be eligible to receive upon the winding-up or dissolution of the Society. The notional proportionate interest in profits is not an entitlement to receive any amounts in respect of such profits at any time. Except for any payment of Surplus upon the winding-up or dissolution of the Society, no payments will be made to CCDS holders as a result of the calculation being performed.*

(a) The **Core Capital Contribution Share** means the amount (rounded to the nearest penny, with £0.005 being rounded up) calculated by (i) multiplying (x) the total amount of Surplus available for distribution in accordance with Condition 4.2 by (y) the Core Capital Contribution Proportion calculated in accordance with Condition 4.4(b) as at the Relevant Time and (ii) dividing the resulting figure by the total number of CCDS which are Outstanding as at the Relevant Time.

(b) The **Core Capital Contribution Proportion** at any given Determination Time (as defined below) is the portion (expressed as a percentage) of the total Common Equity Tier 1 Capital of the Society at such time which is determined, in accordance with the following provisions of this Condition 4.4(b), to have been contributed by the CCDS which are Outstanding at such time.

(i) The Core Capital Contribution Proportion shall be calculated as at the time of issue of the first tranche of CCDS and recalculated (A) as at the time of each issue of Additional CCDS (as defined in Condition 13.1), (B) upon the cancellation of any CCDS and (C) as at the Relevant Time (the time of each such calculation, a **Determination Time**). For the purposes of calculating the Core Capital Contribution Proportion at the Relevant Time (but not at any other Determination Time), all CCDS held by the Society in its treasury function at the Relevant Time shall be deemed to be cancelled at the Relevant Time (such cancellation to be reflected in the determination of the Core Capital Contribution Proportion at the Relevant Time).

(ii) The Core Capital Contribution Proportion as at each Determination Time shall be determined by the Board (or, if applicable, in the case of determination as at the Relevant Time, by or on behalf of the administrator, receiver, liquidator or other insolvency official appointed with primary responsibility for the winding-up or dissolution of the Society) on the basis of the most recently published consolidated annual, interim or *ad hoc* accounts of the Society available as at the relevant Determination Time, and such determination shall be reviewed and confirmed by an independent accountant or firm of accountants of recognised standing appointed or approved by the Board (or, if applicable, the relevant insolvency official) as an expert for such purpose (provided that such expert shall have no responsibility or liability whatsoever to CCDS holders in connection with such review and confirmation).

(iii) The Core Capital Contribution Proportion for a particular Determination Time (**DT**) shall be a percentage (rounded to five decimal places, with 0.000005 being rounded up) equal to:

$$\frac{\text{New Issue Amount}_{DT} + (\text{CCCP}_{DT\text{-}1} \text{ x Core Capital}_{DT}) - \text{Cancellation Adjustment Share}_{DT}}{\text{New Issue Amount}_{DT} + \text{Core Capital}_{DT} - \text{Cancellation Adjustment Amount}_{DT}}$$

where:

New Issue Amount$_{DT}$ is the sum of the aggregate Nominal Amounts and aggregate Premium Amounts (in each case expressed in pounds sterling) of the CCDS (if any) being issued at time DT (and shall be zero if no CCDS are being issued at time DT);

CCCP$_{DT-1}$ is the Core Capital Contribution Proportion calculated as at, and applicable to, the Determination Time immediately preceding time DT (**DT-1**) (provided that, for the purposes of determining the Core Capital Contribution Proportion at the first Determination Time upon issue of the first tranche of CCDS, CCCP$_{DT-1}$ shall be zero);

Core Capital$_{DT}$ is the total amount of Common Equity Tier 1 Capital of the Society, calculated in accordance with the Capital Rules, as at time DT, adjusted if necessary to disregard the impact of (i) any New Issue Amount$_{DT}$ as a result of any new CCDS being issued at time DT, (ii) any Cancellation Adjustment Amount$_{DT}$ as a result of any CCDS being cancelled at time DT and (iii) any CCDS held, as a result of treasury trading, by the Society in its treasury function as at time DT, in each case having regard to the Capital Rules and accounting standards then applicable;

Cancellation Adjustment Amount$_{DT}$ is the amount (expressed in pounds sterling) by which the Common Equity Tier 1 Capital of the Society is or was reduced as a result of the purchase by the Society of the CCDS (if any) which are being cancelled at time DT (and shall be zero if no CCDS are being cancelled at time DT); and

Cancellation Adjustment Share$_{DT}$ is an amount (which, for the avoidance of doubt, shall be zero if no CCDS are being cancelled at time DT) equal to:

$$(\text{N x Notional}_{DT}) + \text{CCCP}_{DT\text{-}1}[\text{Cancellation Adjustment Amount}_{DT} - (\text{N x Notional}_{DT})]$$

where:

N is the number of CCDS which are being cancelled at time DT;

Notional$_{DT}$ is the deemed notional contribution (expressed in pounds sterling) of each CCDS to the Common Equity Tier 1 Capital of the Society as at the relevant Determination Time, which shall be calculated by (i) multiplying (x) Core Capital$_{DT}$ by (y) CCCP$_{DT-1}$ and (ii) dividing the resulting figure by the total number of CCDS which are Outstanding immediately prior to the relevant Determination Time; and

Core Capital$_{DT}$, **CCCP**$_{DT-1}$ and **Cancellation Adjustment Amount**$_{DT}$ have the meanings given above.

The "Cancellation Adjustment Share$_{DT}$*" formula allocates (notionally, and for the purposes only of determining the Core Capital Contribution Proportion from time to time) between CCDS holders and the other members of the Society the reduction in the Common Equity Tier 1 Capital of the Society as a result of the purchase by the Society of the CCDS which are being cancelled at the relevant Determination Time. "Notional*$_{DT}$*" represents the deemed notional contribution of each CCDS being cancelled to the Common Equity Tier 1 Capital of the Society as at the relevant Determination Time, and such amount will (notionally, in the context of the determination of the Core Capital Contribution Proportion) be borne by the CCDS holders. If the amount of the reduction in Common Equity Tier 1 Capital per cancelled CCDS is higher or lower than such deemed notional contribution, the difference is apportioned between the CCDS holders and the other members of the Society proportionately by reference to the prevailing Core Capital Contribution Proportion.*

(c) The Core Capital Contribution Proportion shall be determined as soon as reasonably practicable following each Determination Time and shall promptly, and in any event within 14 days following the confirmation of such determination in the manner provided in Condition 4.4(b)(ii) above, be published on the Society's website (or, if this is not possible, via the Regulatory News Service operated by the London Stock Exchange or another regulatory information service as may be recognised by any stock exchange on which the CCDS are for the time being listed).

(d) If, at any time, by reason of any change in the Capital Rules (or official interpretation thereof) or otherwise, the CCDS cease to qualify as Common Equity Tier 1 Capital of the Society, they will, nevertheless, be treated as contributing to Common Equity Tier 1 Capital of the Society (on the same basis as immediately prior to ceasing so to qualify) for the purposes of determining the Core Capital Contribution Proportion.

4.5 Average Principal Amount

(a) **Average Principal Amount** means an amount (expressed in pounds sterling) per CCDS calculated as follows and rounded to the nearest penny (with £0.005 being rounded up):

$$\frac{\text{Aggregate Nominal} + \text{Aggregate Premium}}{\text{Total CCDS Issued}}$$

where:

Aggregate Nominal is the aggregate of all Nominal Amounts (expressed in pounds sterling) paid at initial subscription of all CCDS issued at any time up to (and including) the time at which the Average Principal Amount is being calculated (whether or not the same remain Outstanding);

Aggregate Premium is the aggregate of all Premium Amounts (expressed in pounds sterling) paid at initial subscription of all CCDS issued at any time up to (and including) the time at which the Average Principal Amount is being calculated (whether or not the same remain Outstanding); and

Total CCDS Issued is the total number of CCDS issued at any time up to (and including) the time at which the Average Principal Amount is being calculated (whether or not the same remain Outstanding).

(b) The Average Principal Amount will be determined in accordance with this Condition 4.5 by the Board as at the time of each new issue of CCDS, and in each case shall be published on the

Society's website (or, if this is not possible, via the Regulatory News Service operated by the London Stock Exchange or another regulatory information service as may be recognised by any stock exchange on which the CCDS are for the time being listed) promptly, and in any event within 14 days, following its determination.

4.6 CCDS issued other than for cash

If at any time CCDS are issued and allotted other than for cash (including, without limitation, CCDS issued and allotted by way of a bonus issue (including a capitalisation issue) or pursuant to a remuneration scheme for directors or employees of the Society, or CCDS issued in exchange for other securities of the Society), the Premium Amount of each such CCDS shall be determined by the Board in good faith (and in accordance with generally accepted accounting practices and the accounting policies of the Society for the time being) as an amount equal to the notional value (such notional value being, as close as practicable, the equivalent cash value) in respect of which such CCDS is issued and allotted less the £1 Nominal Amount of such CCDS. The Nominal Amount and Premium Amount of each such CCDS shall be included in any calculation of the Core Capital Contribution Proportion and Average Principal Amount as if such Nominal Amount and Premium Amount had been paid to the Society in cash.

4.7 Entitlement to Surplus capped

The entitlement of CCDS holders to share in the Surplus shall be capped at the Average Principal Amount per CCDS. Accordingly, following payment to the holders of CCDS, by way of distribution of Surplus, of an amount equal to the Average Principal Amount in respect of each CCDS, the holders of the CCDS shall have no further entitlement to share in any remaining or further distribution of Surplus, and any such remaining or further Surplus shall be distributed amongst the persons and in the manner specified in Conditions 4.3(b), (c) and (d) only, or otherwise as provided in the Rules.

4.8 Declared and unpaid Distributions

On a winding-up or dissolution of the Society, the CCDS holders shall, in respect of any declared, unconditional (which term shall, for these purposes, include any conditional Distribution (as described in Condition 5.3) or part thereof in respect of which the relevant conditions have been satisfied) and unpaid Distributions, be entitled to prove in the winding-up or dissolution of the Society, as the case may be, for the amount of such Distributions but only if, and subject to the condition that, all sums due from the Society in respect of Liabilities in the winding-up or dissolution have been paid in full, and accordingly the claims of the CCDS holders in respect thereof shall rank (a) *pari passu* amongst themselves and with any other claims ranking or expressed to rank *pari passu* therewith and (b) junior to all Liabilities of the Society. Accordingly, such claims shall constitute the most junior claim in the winding-up or dissolution of the Society other than a claim to participate in any Surplus.

4.9 Set-off

By acceptance of the CCDS, each CCDS holder will be deemed to have waived any right of set-off or counterclaim that such CCDS holder might otherwise have against the Society in respect of or arising under the CCDS whether prior to or in a winding-up or dissolution. Notwithstanding the preceding sentence, if any of the rights and claims of any CCDS holder in respect of, or arising under, the CCDS are discharged by set-off, such CCDS holder will immediately pay an amount equal to the amount of such discharge to the Society or, if applicable, the administrator, receiver, liquidator or other insolvency official appointed with primary responsibility for the winding-up or dissolution of the Society and, until such time as payment is made, will hold a sum equal to such amount on trust for the Society or, if applicable, such administrator, receiver, liquidator or other insolvency official (as the case may be). Accordingly, such discharge will be deemed not to have taken place.

5. DISTRIBUTIONS

5.1 Declaration of Distributions

The Board may, in its sole and absolute discretion, from time to time declare periodic investment returns (**Distributions**, which term shall include any Interim Distribution and any Final Distribution each as defined below) in respect of the CCDS. With respect to any given financial year of the Society, the Board may declare an interim Distribution (an "**Interim Distribution**") during such financial year and/or a final Distribution (a "**Final Distribution**") in respect of such financial year.

A Distribution (or any part thereof) may be declared unconditionally or subject to satisfaction of such conditions as the Board may determine (which may include, without limitation, any consents or approvals which may be necessary for distribution of reserves of the Society).

If an Interim Distribution is declared during any financial year, it will (subject to satisfaction of the relevant conditions to payment, if any) be paid on 20 December in such financial year and if a Final Distribution is declared in respect of any financial year, it will (subject to satisfaction of the relevant conditions to payment, if any) be paid on 20 June falling in the financial year immediately following the financial year in respect of which the Final Distribution is declared, provided that if any such date is not a Business Day, such Interim Distribution or Final Distribution (as the case may be) will be paid on the immediately following Business Day (the **Distribution Payment Dates**).

If, at any time, the Society changes its accounting reference date, the Board shall be entitled to change the Distribution Payment Date for the payment of Final Distributions to a date which the Board considers appropriate given the new accounting reference date (provided that such date shall fall not more than five months following the end of the financial year in respect of which the relevant Final Distribution is declared), and the Distribution Payment Date for the payment of Interim Distributions shall at the same time be changed to the date falling six months prior to such date. Any new Distribution Payment Dates so determined will be promptly notified to CCDS holders in accordance with Condition 14 and published on the website of the Society (or, if this is not possible, via the Regulatory News Service operated by the London Stock Exchange or another regulatory information service as may be recognised by any stock exchange on which the CCDS are for the time being listed).

5.2 Distributions discretionary

The Board shall have full discretion at all times whether or not to declare any Interim Distribution or Final Distribution. Interim Distributions and Final Distributions are independent, and accordingly whether or not the Board declares an Interim Distribution during any financial year shall have no effect or bearing on the Board's discretion whether or not to declare a Final Distribution in respect of that financial year (save that the amount of the Final Distribution (if any) declared in respect of a financial year shall not, when aggregated with any Interim Distribution paid during that financial year, exceed the Cap provided in Condition 5.5). If, at any time, the Board elects not to declare any Interim Distribution or Final Distribution, no Distribution or other amount in respect of the relevant period shall accumulate to CCDS holders or be payable at any time thereafter, and CCDS holders shall have no right to any Distribution or other amount in respect of such period, whether in a winding-up or dissolution of the Society or otherwise.

Notwithstanding the discretion of the Board referred to above, if the Supervisory Authority, by notice in writing to the Society, requires the Society not to declare any Distributions on the CCDS at any time or whilst any specified circumstances subsist or during a specified period, the Board shall not declare any Distributions until such time as the Supervisory Authority authorises it to resume Distributions on the CCDS, such circumstances cease to subsist or, as the case may be, expiration of the specified period.

5.3 Conditional Distributions

If a Distribution (or any part thereof) is declared subject to the satisfaction of one or more conditions and any such condition is not satisfied on or prior to the relevant Distribution Payment Date, such

Distribution (or, as the case may be, the part of such Distribution subject to the relevant condition) shall not accumulate to CCDS holders or be payable at any time thereafter, and CCDS holders shall have no right to such Distribution (or, as the case may be, the conditional part thereof) whether in a winding-up or dissolution of the Society or otherwise.

5.4 Distributions payable out of Distributable Items

Distributions will be paid out of Distributable Items, and the Board shall not declare a Distribution that is greater than the amount of Distributable Items available for payment of such Distribution.

If the Distribution is to be paid entirely out of the Society's profits available for distribution, such payment is subject to the discretion of the Board. To the extent that the Distribution is to be paid from the Society's reserves, such payment is subject to the discretion of the Board and applicable legal and regulatory requirements relevant to making payments from the reserves.

5.5 Cap on Distributions

The total Distribution paid on each CCDS in respect of any given financial year of the Society (being the aggregate of the Interim Distribution (if any) paid during such financial year and the Final Distribution (if any) paid in respect of such financial year) shall not exceed the prevailing periodic investment returns cap determined in accordance with the Rules (the **Cap**). The Cap prevailing from time to time in respect of the CCDS shall be published on the Society's website.

The Rules provide that the initial Cap, which would have been applicable to Distributions in respect of the financial year to 4 April 2013 had CCDS been in issue during that financial year, was £15 per CCDS, and that (subject as stated below) in respect of each subsequent financial year the Cap will be adjusted for inflation by reference to the United Kingdom Consumer Price Index (overall index, 2005=100) ("CPI") published by the Office for National Statistics (or any successor to that index). Such adjustment will be made by applying the CPI annual inflation percentage published by the Office for National Statistics in its statistical bulletin for the last full calendar month of the financial year in respect of which the Distributions are payable (being the percentage increase or decrease over the twelve months to and including that month) to the prevailing Cap. Accordingly, the Cap applicable to Distributions (if any) which may be paid in respect of the financial year to 4 April 2014 (in which regard, the Board is not currently targeting an Interim Distribution in December 2013 but is currently targeting a Final Distribution in June 2014) will be determined by applying the CPI annual inflation percentage published by the Office for National Statistics in its statistical bulletin for March 2014 to the initial Cap of £15. If the CPI ceases to be published and no direct successor or replacement index is published, the Board shall be entitled to determine an appropriate replacement index for determining future inflation-based adjustments to the Cap, and shall have sole discretion to determine any modifications to the method of determining inflation-based adjustments to the Cap during the transition from CPI to the replacement index. The Society shall in each year determine the adjustment to the Cap promptly following publication of the relevant CPI (or successor or replacement index) data by the Office for National Statistics (or such successor or other organisation as may be responsible for publishing official data with respect to the relevant index) and will notify the members of the Society of the adjusted Cap not later than at the first Annual General Meeting following publication of the relevant data. In the event that adjustment of the Cap in the manner described above would prejudice the regulatory capital treatment of the CCDS, the Society will disapply those adjustment provisions and the Cap will revert to £15 per CCDS.

5.6 Distribution due and payable following declaration

Once declared, a Distribution will be due and payable by the Society on the relevant Distribution Payment Date, provided that any Distribution (or any part thereof) that is stated to be conditional as aforesaid will become due and payable on the relevant Distribution Payment Date only if the relevant conditions are satisfied on or prior to such Distribution Payment Date.

5.7 Non-declaration not default

Neither a decision by the Board not to declare a Distribution (whether an Interim Distribution or a Final Distribution) at any time, nor non-payment of any Distribution (or any part thereof) in respect of which a relevant condition to payment of such Distribution (or such part) has not been satisfied on or before the relevant Distribution Payment Date, shall constitute a default by the Society under the CCDS for any purpose, and neither such event shall entitle CCDS holders to petition for the winding-up or dissolution of the Society.

5.8 Notice of Distribution

Following determination by the Board whether any Interim Distribution or Final Distribution shall be declared, the Society will publish an announcement confirming (a) the amount (if any) of such Distribution, expressed as an amount per CCDS and (b) whether the Distribution (or any part thereof) is conditional and, if so, the relevant condition(s).

If the Board declares a Distribution which is, in whole or in part, conditional and one or more relevant conditions have not been satisfied on or before the relevant Distribution Payment Date, the Society will promptly publish an announcement confirming that such condition(s) have not been satisfied and that, accordingly, the Distribution (or the relevant part thereof) subject to such condition(s) is not, and shall not become, due and payable.

5.9 Distribution Policy

The Society will from time to time publish on its website a distribution policy (the **Distribution Policy**) setting out the Board's expectations as regards the declaration of Distributions and certain factors which the Board may consider when determining whether or not to declare a Distribution and, if so, the amount of such Distribution. Upon any change in the policy, the Society shall promptly publish the revised Distribution Policy on its website.

The Distribution Policy may give an indication of the Board's current expectations with respect to declaration of Distributions (the **Indication**). Any Indication will not be binding on the Board or the Society and the Board shall (subject to there being available sufficient Distributable Items) have absolute discretion to declare a Distribution which is higher (subject to the Cap) or lower than the Indication or to determine that no Distribution shall be declared in respect of the relevant period. The Board will have regard to a range of factors including those set out in the Distribution Policy and must satisfy itself that the declaration of any Distribution is consistent with maintaining the financial strength of the Society.

The initial Distribution Policy will be in substantially the form set out in paragraph 13 "Distribution Policy" of "Part VII: Details of the Offer" of the Prospectus, save that the Indication will be stated as a specific figure and not as a range.

6. PAYMENTS

6.1 Payment by cheque or transfer

Subject as follows, all payments in respect of the CCDS will be made by sterling cheque drawn on a bank or building society in the United Kingdom, posted on the Business Day immediately preceding the relevant due date for payment and made payable to the CCDS holder appearing in the CCDS Register in respect of the CCDS of which it is the holder at the close of business on the fifteenth day before the relevant due date (the **Record Date**) at the addresses shown in the CCDS Register on the Record Date, or in such other manner as the Principal Paying Agent shall agree with the Society.

Upon application of the CCDS holder to the Society, in the form from time to time prescribed by the Society, not less than 10 days before the due date for any payment in respect of its CCDS, the payment may be made by transfer on the due date for payment or, if such date is not a Business Day, on the immediately following Business Day, to a sterling account maintained by the relevant CCDS holder with a bank or building society in the United Kingdom.

Notwithstanding this Condition 6.1, all payments in respect of CCDS held through Clearing System accounts will be credited to the cash accounts of Accountholders in each Clearing System in accordance with the relevant Clearing System's rules and procedures. Each investor holding beneficial interests in the CCDS through a Clearing System must look solely to the relevant Accountholder through which it holds its CCDS for its share of each payment so made.

6.2 Payments subject to applicable laws

Payments in respect of the CCDS will be subject in all cases to (i) any fiscal or other laws and regulations applicable thereto in the place of payment and (ii) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986 (the **Code**) or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, any official interpretations thereof, or any law implementing an intergovernmental approach thereto or any other applicable law.

In the event that a withholding or deduction is required to be made under applicable law or regulation, the Society will cause the requisite amount to be withheld or deducted and CCDS holders will be entitled to receive only the balance of the relevant Distribution following such withholding or deduction.

On the basis of United Kingdom tax law and practice prevailing as at the date of this Prospectus, all payments of Distributions in respect of the CCDS are expected to be made without withholding or deduction for or on account of any present or future taxes or duties of whatever nature imposed or levied by or on behalf of the United Kingdom or any political subdivision or any authority thereof or therein having power to tax.

6.3 Partial payments

If any amount due on the CCDS is not paid in full, the Registrar will annotate the CCDS Register of the amount in fact paid.

7. PRESCRIPTION

Any amounts payable in respect of CCDS in respect of which no cheque or warrant has been cashed and no payment claimed shall cease to be payable after 12 years from the due date and shall revert to the Society.

8. NO REDEMPTION; PURCHASES

8.1 No redemption

The CCDS constitute permanent non-withdrawable deferred shares (as defined in the Act) in the Society and have no maturity date. The Society has neither an obligation nor any right to redeem or, save following a purchase as referred to in Condition 8.2, cancel the CCDS and CCDS holders do not have any right to require the Society to redeem, purchase or cancel the CCDS.

8.2 Purchases

The Society may, in its sole discretion but subject to Condition 8.3, at any time purchase CCDS in the open market or otherwise at any price. CCDS so purchased may, at the option of the Society, be held, re-issued and/or re-sold or surrendered to the Registrar for cancellation.

Subsidiaries of the Society shall not be permitted to purchase and hold CCDS for their own account or that of the Society, and any such purchase shall be deemed to be a purchase by the Society for immediate cancellation. Nothing in the previous sentence shall prohibit a subsidiary of the Society from purchasing or holding CCDS in its capacity as personal representative, agent or trustee for or on behalf of, or for the benefit of, a person other than the Society or a subsidiary of the Society, and any such purchase shall not be deemed to be a purchase by the Society (for immediate cancellation or otherwise).

8.3 Purchases subject to supervisory consent

Any purchase of CCDS by the Society will, if so required by the Supervisory Authority, the prudential rules applicable to the Society or any laws or regulations applicable to deferred shares of the Society at the relevant time, be conditional upon the Society having duly notified the Supervisory Authority of its intention to purchase the CCDS and the Supervisory Authority having consented, or, if applicable, within any applicable period not having objected, to such purchase.

9. REPLACEMENT OF CCDS CERTIFICATES

A CCDS holder who has lost a CCDS Certificate shall immediately give notice in writing of such loss to the Society at its principal office and to the Registrar and Principal Paying Agent at its specified office. If a CCDS Certificate is damaged or alleged to have been lost, stolen or destroyed, a new CCDS Certificate representing the same CCDS shall be issued by the Registrar, on behalf of the Society, to the CCDS holder upon request, subject to delivery up of the old CCDS 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 any investigation of the evidence of such alleged loss, theft or destruction. The duplicate CCDS Certificate will be made available at the specified office of the Registrar.

10. SUCCESSION AND TRANSFERS

10.1 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 CCDS shall become deferred shares in the amalgamated or transferee building society, as appropriate (the **Resulting Society**), having such terms and conditions as are necessary to ensure that both the CCDS and any other deferred shares which, prior to such amalgamation or transfer, constituted Common Equity Tier 1 Capital of the other society, shall constitute Common Equity Tier 1 Capital of the Resulting Society and, subject thereto, in all material respects identical to the terms of the CCDS, all as determined by an independent financial adviser (having regard to such factors as it considers appropriate) appointed by the Society in its sole discretion.

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 10.1, for the terms of the CCDS and/or the rules of the Resulting Society to be amended in certain respects and/or for certain adjustments to be made to the prevailing Core Capital Contribution Proportion, Average Principal Amount and/or Cap on Distributions and, where applicable, the formulae for calculating the same. With a view to minimising the financial impact of such amendments and adjustments on CCDS holders, it is the intention of the Society that, if and to the extent that the Society has control over such matters, any such amendments and adjustments should be limited to the minimum necessary in order to ensure that the CCDS and any other deferred shares of the other society which, prior to such amalgamation or transfer, constituted Common Equity Tier 1 Capital of the other society, shall constitute Common Equity Tier 1 Capital of the Resulting Society.

10.2 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 subordinated liability (a **Subordinated Deposit**) to each holder of CCDS, which Subordinated Deposit shall be applied on the vesting date (or as soon as reasonably practicable thereafter), on behalf of the CCDS holder, in the subscription of such number of ordinary shares (which may or may not carry voting rights) in the Successor Entity or, if appropriate, any direct or indirect parent company of the Successor Entity, ranking *pari passu* in all respects with the then existing ordinary shares of such Successor Entity or such parent, as applicable, as have an aggregate market value immediately following such subscription as near as practicable to, but not less than, the market value of the CCDS immediately prior to the time of transfer of the business of the Society to the Successor Entity, as determined by an independent financial adviser (having regard to such factors as it considers appropriate, including recent trading prices if available) appointed by the Society in its sole discretion.

10.3 Basis of appointment of independent financial adviser

Any independent financial adviser appointed pursuant to Condition 10.1 or 10.2 shall act as an expert and not as an arbitrator, and all fees, costs and expenses in connection with such appointment shall be borne by the Society. Any determination made in good faith by such independent financial adviser pursuant to Condition 10.1 or 10.2 shall be binding on the Society, the Registrar and the CCDS holders. No independent financial adviser appointed pursuant to Condition 10.1 or 10.2 shall have any responsibility or liability whatsoever to any CCDS holder or to any other person in connection with any determination made by it in good faith pursuant to Condition 10.1 or 10.2.

10.4 Failure to obtain a determination by independent financial adviser

If, in circumstances which require an independent financial adviser to make any determination pursuant to Condition 10.1 or 10.2, the Society is unable to appoint such independent financial adviser, or the appointed independent financial adviser fails to make any necessary determination and the Society is unable to appoint an alternative or additional independent financial adviser to make such determination, the Society shall convene a meeting of the CCDS holders in accordance with Condition 12 in order for such holders to approve by resolution those determinations which remain to be made. Such approval may alternatively be obtained by way of a written resolution in accordance with Condition 12.7.

10.5 Undertakings

(a) The Society undertakes to procure that any amalgamation or transfer referred to in Condition 10.1 or 10.2 will comply with the provisions of Condition 10.1 or, as the case may be, 10.2. 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 10 (including, but not limited to, the appointment, if applicable, of an independent financial 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 10.1, 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 CCDS are, for the time being, listed, traded and/or quoted; 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, but will not pay (and each CCDS holder 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 pursuant to Condition 10.1.

(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 10.2, the Society:

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

(ii) shall pay, or 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 to pay, 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 ordinary shares, but will not pay (and each CCDS holder 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 ordinary shares pursuant to Condition 10.2.

11. VARIATIONS OF THESE CONDITIONS

11.1 These Conditions may only be varied by the Society with the consent in writing of the CCDS holders in accordance with Condition 12.7 or with the sanction of a resolution passed at a separate meeting of the CCDS holders held in accordance with Condition 12.

11.2 These Conditions do not limit the rights of members of the Society to amend the Rules.

11.3 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 CCDS holders in that capacity.

11.4 The provisions of Condition 11.2 and 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:

(a) limit any rights of any CCDS holder 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 CCDS holder shall be entitled to bring an action against the Society as if there had been a breach of contract (such that a CCDS holder 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 CCDS as a class and which would have been a breach of these Conditions had such amendment been instituted by the Society; or

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

provided, however, that no CCDS holder shall be entitled to bring an action against the Society under (a) above, and the Society shall have a valid defence to any such action under (b) above, if the holders of CCDS have at any time passed a resolution in accordance with Condition 12 (whether at a duly convened meeting of the holders of CCDS 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.

12. MEETINGS OF THE CCDS HOLDERS

12.1 Convening the meeting, notice and quorum

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

At least 21 clear days' notice specifying the hour, date and place of the meeting shall be given to the CCDS holders entered in the CCDS Register 35 days prior to the date specified for the meeting, such notice to be given in accordance with Condition 14. 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 CCDS holder) 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 CCDS holders 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 number of CCDS 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 CCDS or being proxies and representing in aggregate not less than three-quarters of the number of the CCDS represented at such meeting voting in favour of such question.

12.2 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 CCDS holders present in person or by proxy at the adjourned meeting shall be a quorum.

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.

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 12.1.

12.3 Conduct of business of the meeting

Any director or officer of the Society and its professional advisers may attend and speak at any meeting of the CCDS holders. 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 CCDS holder or is a proxy thereof.

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.

At any meeting every CCDS holder or proxy who is present shall have one vote for each CCDS held or, as the case may be, in respect of which it is a proxy.

12.4 Proxies

A CCDS holder entitled to attend a separate meeting of the CCDS holders:

(a) may appoint one person (whether or not a CCDS holder) 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.

12.5 Effect of resolution

Any resolution passed at a meeting duly convened and held in accordance with the provisions of this Condition 12 shall be binding upon all the CCDS holders 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.

12.6 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.

12.7 Written resolution

A resolution may also be passed, without the need for a meeting of CCDS holders, by way of a resolution in writing signed by or on behalf of CCDS holders holding in aggregate not less than three-quarters of the number of CCDS for the time being 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 CCDS holders. Any written resolution passed shall be binding upon all the CCDS holders whether or not signing the written resolution and each of them shall be bound to give effect to the resolution accordingly.

12.8 Notice

Notice of any resolution duly passed by the CCDS holders, whether at a meeting of CCDS holders or by written resolution, shall be given in accordance with Condition 14 by the Society within 14 days of the passing of the resolution, provided that failure to give such notice shall not invalidate the resolution.

13. FURTHER ISSUES AND PRE-EMPTION

13.1 Further issues

The Society shall, subject to Condition 13.2, be at liberty from time to time, without the consent of the CCDS holders, to create and issue at any price further deferred shares ranking *pari passu* in all respects and so that the same shall be consolidated and form a single series with the Outstanding CCDS (**Additional CCDS**).

The Society shall be at liberty from time to time, without the consent of the CCDS holders, to create and issue, at any price, deferred shares upon such other terms of issue as the Society may at the time of issue determine, provided that the Society shall not issue any deferred share (core capital) investments other than Additional CCDS.

13.2 Pre-emption Opportunity

Upon the issue of any Additional CCDS, each Eligible CCDS holder of CCDS then Outstanding shall, subject to Condition 13.7, be given, in the manner provided in Condition 13.3 and in priority to any other person, the opportunity (the **Pre-emption Opportunity**) to subscribe an amount of the Additional CCDS which (as nearly as practicable) bears the same proportion to the total issue of such Additional CCDS as the number of such Eligible CCDS holder's CCDS bear to the total number of CCDS then Outstanding (the **Relevant Proportion**).

Eligible CCDS holder means each holder of CCDS appearing in the CCDS Register at the close of business on the Business Day prior to the date on which the Pre-emption Notice is given.

The Pre-emption Opportunity shall not apply upon the re-issue or re-sale of CCDS following the purchase thereof by the Society.

13.3 Pre-emption Offer

If the Society intends to issue Additional CCDS in circumstances where the Pre-emption Opportunity applies, the Society shall give notice (the **Pre-emption Notice**) to the CCDS holders, in accordance with Condition 14, of such intention and offering Eligible CCDS holders the opportunity, on the same terms, to subscribe the Relevant Proportion of the Additional CCDS to which they are entitled (the **Pre-emption Offer**).

13.4 Pre-emption Notice

The Pre-emption Notice shall specify (a) the terms on which the Pre-emption Offer is made and the conditions (if any) to which it is subject, (b) the period during which the Pre-emption Opportunity is available to Eligible CCDS holders (the **Pre-emption Offer Period**) and (c) the procedures which Eligible CCDS holders must follow if they wish to participate in the Pre-emption Offer.

The Pre-emption Offer Period shall be at least 10 Business Days.

13.5 Additional CCDS not subscribed pursuant to the Pre-emption Offer

If any Additional CCDS are not subscribed in the Pre-emption Offer (whether by Eligible CCDS holders declining to subscribe the Relevant Proportion of Additional CCDS to which they are entitled or by Eligible CCDS holders failing validly to participate in the Pre-emption Offer before expiration of the Pre-emption Offer Period), the Society shall be entitled to issue and offer such Additional CCDS to any person (including, but not limited to, other Eligible CCDS holders), provided that such offer is on terms no more favourable to subscribers than the terms of the Pre-emption Offer.

13.6 Results of the Pre-emption Offer

The Society shall notify CCDS holders, in accordance with Condition 14, of the results of the Pre-emption Offer not later than 14 days following expiration of the Pre-emption Offer Period.

13.7 Disapplication of Pre-emption Opportunity

(a) The Pre-emption Opportunity shall not apply to Additional CCDS:

(i) all or substantially all of the subscription price for which is paid otherwise than in cash (including, without limitation, where Additional CCDS are issued and allotted in exchange for or upon conversion of other securities of the Society);

(ii) issued and allotted pursuant to any remuneration scheme operated by or on behalf of the Society for the benefit of the Directors and/or employees of the Society; or

(iii) issued in circumstances where the Supervisory Authority has directed the Society, in writing, to disapply the Pre-emption Opportunity.

(b) In addition, the Society may, in any financial year, issue (in one or more tranches) a number of Additional CCDS not exceeding, in aggregate, 15 per cent. of the number of Outstanding CCDS at close of business on the last day of the immediately preceding financial year, in circumstances where it elects to disapply the Pre-emption Opportunity. Any Additional CCDS issued in circumstances where Condition 13.7(a) applies shall not count towards the 15 per cent. limit referred to in the previous sentence.

14. NOTICES

All notices regarding the CCDS shall be valid if sent by post to the CCDS holders at their respective addresses in the CCDS 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 CCDS 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.

15. RIGHTS OF THIRD PARTIES

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

16. GOVERNING LAW

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

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.

17. DEFINITIONS

For the purpose of these Conditions:

Act has the meaning given in Condition 1.2(a).

Additional CCDS has the meaning given in Condition 13.1.

Agency Agreement has the meaning given in the preamble to these Conditions.

Average Principal Amount has the meaning given in Condition 4.5.

Board means the Board of Directors of the Society.

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.

Cap has the meaning given in Condition 5.5.

Capital Rules means the applicable rules of the Supervisory Authority (as amended or replaced from time to time) and any other rules or regulations relating to the capital adequacy or prudential requirements to which the Society and its group are subject from time to time, and shall include (without limitation) any measures applicable to the Society which are intended to implement the reforms contained in "*Basel III: A global regulatory framework for more resilient banks and banking systems*" published by the Basel Committee on Banking Supervision in December 2010, including (without prejudice to the generality of the foregoing) *Directive 2013/36/EU of the European Parliament and of* *the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC* (commonly referred to as the **Capital Requirements Directive IV** or **CRD IV**), *Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012* (commonly referred to as the **Capital Requirements Regulation** or **CRR**), applicable regulatory technical standards published by the European Banking Authority and adopted by the European Commission (by way of regulation or otherwise) and any rules promulgated in connection with any of the foregoing.

CCDS has the meaning given in the preamble to these Conditions.

CCDS Certificate has the meaning given in Condition 2.3.

CCDS holder means a person whose name and address is entered in the CCDS Register as the holder of CCDS, and references to a **holder** of CCDS shall be construed accordingly.

CCDS Register means the records of the Society maintained by the Registrar constituting the register of members for the purposes of the CCDS.

Common Equity Tier 1 Capital, at any time, has the meaning ascribed thereto (or to any equivalent term) at such time in the Capital Rules.

Conditions means these conditions of issue of the CCDS, and references to a numbered Condition shall be construed accordingly.

Conversion Benefits has the meaning given in Condition 1.3.

Core Capital Contribution Proportion has the meaning given in Condition 4.4.

Core Capital Contribution Share has the meaning given in Condition 4.4.

deferred share (core capital) investment has the meaning given in the Rules.

Determination Time or **DT** has the meaning given in Condition 4.4.

Distributable Items means, in respect of the payment of a Distribution at any time, 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 Distribution.

As at the date of this prospectus, 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, profits which are non-distributable pursuant to provisions in legislation or the institution's bye-laws and sums placed to non-distributable reserves in accordance with applicable national law or the statutes of the institution, those losses and reserves being determined on the basis of the individual accounts of the institution and not on the basis of the consolidated accounts."

Distribution Payment Dates has the meaning given in Condition 5.1, and **Distribution Payment Date** shall be construed accordingly.

Distribution Policy has the meaning given in Condition 5.9.

Distributions has the meaning given in Condition 5.1, and **Distribution** shall be construed accordingly.

Eligible CCDS holder has the meaning given in Condition 13.2.

Final Distribution has the meaning given in Condition 5.1.

Interim Distribution has the meaning given in Condition 5.1.

Liabilities means (i) the claims of all creditors (including, without limitation, creditors in respect of subordinated liabilities) of the Society and (ii) the claims of all other investing members (as defined in the Rules) of the Society (including, without limitation, holders of permanent interest bearing shares (if any)) in respect of the amounts paid up on their shares (other than deferred share (core capital) investments), in each case including any principal amount, any interest (including post-petition interest) thereon and any other amounts owing thereon, but excluding (x) any actual, prospective or contingent claims to participate in a distribution of Surplus of the Society and (y) any claims in respect of declared, unconditional and unpaid Distributions in accordance with Condition 4.8 and claims ranking or expressed to rank *pari passu* therewith.

Minimum Transfer Amount has the meaning given in Condition 2.2.

Nominal Amount has the meaning given in Condition 2.1.

Outstanding means, in relation to the CCDS, all the CCDS issued other than:

(a) those CCDS which have been cancelled in accordance with Condition 8; and

(b) any global CCDS Certificate to the extent that it shall have been exchanged for definitive CCDS Certificates pursuant to its provisions;

PROVIDED THAT for each of the following purposes, namely:

(i) the right to attend and vote at any meeting of the CCDS holders or any of them or to pass a resolution by way of written resolution in place of a meeting and any direction or request by CCDS holders;

(ii) the determination of how many and which CCDS are for the time being Outstanding for the purposes of Condition 12 and paragraphs 8, 9, 21 and 22 of Schedule 3 to the Agency Agreement;

(iii) the entitlement of a CCDS holder to a Pre-emption Opportunity (including the determination of the Relevant Proportions to which the CCDS holders are entitled);

(iv) any discretion, power or authority (whether granted under these Conditions, the Rules or applicable laws) which any person is required, expressly or impliedly, to exercise in or by reference to the interests of the CCDS holders or any of them; and

(v) the determination by any person whether any event, circumstance, matter or thing is, in its opinion, materially prejudicial to the interests of the CCDS holders or any of them,

those CCDS (if any) which are for the time being held by or on behalf of or for the benefit of the Society, any subsidiary of the Society or any holding company of the Society or any other subsidiary of such holding company, in each case as beneficial owner, shall (unless and until ceasing to be so held) be deemed not to remain Outstanding;

AND FURTHER PROVIDED THAT for the purposes of Conditions 4.2, 4.3(a), 4.4(a) and 4.4(b), all CCDS held by the Society in its treasury function at the Relevant Time (but, for the avoidance of doubt, not at any other Determination Time) shall be deemed to be cancelled at the Relevant Time (such cancellation to be reflected in the determination of the Core Capital Contribution Proportion at the Relevant Time) and not to be or remain Outstanding for such purposes.

The effect of the second proviso above is that CCDS held by the Society as beneficial owner shall be treated as being cancelled upon a winding-up or dissolution of the Society and accordingly shall not be Outstanding for the purposes of any calculation of the Core Capital Contribution Share, and accordingly no claim shall be made in respect of those CCDS so held in the winding-up or dissolution of the Society.

Pre-emption Notice has the meaning given in Condition 13.3.

Pre-emption Offer has the meaning given in Condition 13.3.

Pre-emption Offer Period has the meaning given in Condition 13.4.

Pre-emption Opportunity has the meaning given in Condition 13.2.

Principal Amount has the meaning given in Condition 2.1.

Principal Paying Agent has the meaning given in the preamble to these Conditions.

Record Date has the meaning given in Condition 6.1.

Registrar has the meaning given in the preamble to these Conditions.

Relevant Proportion has the meaning given in Condition 13.2.

Relevant Regulators means the Supervisory Authority and/or the Financial Conduct Authority (or any successor thereto) as required in the circumstances.

Relevant Time has the meaning given in Condition 4.3.

Rules has the meaning given in the preamble to these Conditions.

Supervisory Authority means the Prudential Regulation Authority (or any successor or other authority having primary supervisory authority with respect to prudential matters in relation to the Society).

Surplus has the meaning given in Condition 4.2.

OVERVIEW OF PROVISIONS RELATING TO THE CCDS WHILE REPRESENTED BY THE GLOBAL CCDS CERTIFICATE

The following is a summary of the provisions to be contained in the Agency Agreement and in the global certificate representing all the CCDS upon issue (the **Global CCDS Certificate**) which will apply to, and in some cases modify the effect of, the Conditions while the CCDS are represented by the Global CCDS Certificate:

1. EXCHANGE OF THE GLOBAL CCDS CERTIFICATE AND REGISTRATION OF TITLE

Registration of title to CCDS in a name other than that of the Nominee will be permitted only if all Clearing Systems have closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or have announced an intention permanently to cease business or do in fact do so.

Thereupon, the Nominee (acting on the instructions of one or more of the Accountholders (as defined below)) may give notice to the Society of its intention to exchange the Global CCDS Certificate for definitive CCDS Certificates on or after the Exchange Date (as defined below). References herein to "**Accountholders**" are to each person (other than a Clearing System) who is for the time being shown in the records of a Clearing System as the holder of a particular number of CCDS (in which regard any certificate or other document issued by that Clearing System as to the number of CCDS standing to the account of any person shall be conclusive and binding for all purposes).

On or after the Exchange Date, the Nominee may surrender the Global CCDS Certificate to or to the order of the Registrar. In exchange for the Global CCDS Certificate, the Registrar will deliver, or procure the delivery of, definitive CCDS Certificates 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 CCDS Certificate, the Society will procure that it is cancelled and, if the Nominee so requests, returned to the Nominee together with any relevant definitive CCDS 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.

2. PAYMENTS

Payments due in respect of CCDS represented by the Global CCDS Certificate shall be made by the Registrar or the Principal Paying Agent to or to the order of the Nominee. A record of each payment made in respect of CCDS represented by the Global CCDS Certificate will be endorsed on the appropriate part of the schedule to the Global CCDS 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 CCDS.

Payment by the Registrar or the Principal Paying Agent 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 CCDS. Each Accountholder must look solely to its Clearing System for its share of each payment made to or to the order of the Nominee, and each Beneficial Owner (as defined in paragraph 4 below) who is not itself an Accountholder must look solely to the relevant Accountholder through which it holds its CCDS for its share of each payment made to such Accountholder.

3. TRANSFERS

Transfers of book-entry interests in the CCDS will be effected through the records of the Clearing Systems and their respective direct and indirect participants in accordance with their respective rules and procedures.

The Minimum Transfer Amount prevailing from time to time, as determined in accordance with Condition 2.2, shall apply *mutatis mutandis* to transfers of book-entry interests in the CCDS. Accordingly, a transfer of book-entry interests in the CCDS will only be effected by the Clearing Systems if such transfer is in respect of a whole number of CCDS equal to or greater than the Minimum Transfer Amount prevailing at the time of the transfer.

The CCDS are transferable in whole numbers, subject to the Minimum Transfer Amount, and not on the basis of principal amount. For example, an instruction to sell or purchase "100,000" CCDS in a Clearing System will be an instruction to sell or purchase (as the case may be) one hundred thousand CCDS (and not an instruction to sell or purchase £100,000 in principal amount of CCDS).

The Clearing Systems will not accept instructions to settle transfers of CCDS in amounts less than the prevailing Minimum Transfer Amount. Accordingly, purported transfers of CCDS in amounts less than the prevailing Minimum Transfer Amount will be incapable of settlement. Investors in CCDS are responsible for ensuring that any trades they enter into in respect of the CCDS are capable of settlement; failure to do so may result in an investor breaching its contract of sale and purchase. Investors and potential investors in CCDS who are members of the London Stock Exchange are reminded of their obligations under the Rules of the London Stock Exchange, including under rule G5000 (obligation to settle).

4. DISCLOSURE OF CCDS HOLDINGS

For so long as any CCDS are represented by the Global CCDS Certificate and such Global CCDS Certificate is registered in the name of the Nominee, the Society (or an agent on its behalf) may from time to time give notice (a **Compliance Notice**), in accordance with the usual procedures of the Clearing Systems, requiring Beneficial Owners and Intermediaries (each as defined below) to disclose to the Society (or to its appointed agent, which shall be bound to confidentiality by contract or by generally applicable law and regulation) such information as the Society considers necessary in order for it to establish its continued compliance with its obligations under Listing Rule 14.3.2R in connection with Listing Rule 14.2.2R and Article 48 of EU Directive 2001/34/EC as amended (the **Compliance Information**).

The Compliance Information to be provided will be specified in the relevant Compliance Notice, and may include (without limitation) (i) the legal name of the holder of any CCDS; (ii) the number of CCDS held by such person; (iii) whether, to its knowledge, such person has any connection with the Society or any Director of the Society or whether any other circumstance exists which would be relevant for the purpose of determining whether the requirements contained in Listing Rule 14.2.2R are being met; and (iv) if that person acquired any CCDS after the Record Time (as defined below), the legal name of the person from whom it acquired such CCDS.

Each Beneficial Owner will be required to provide the specified Compliance Information as regards itself and its own holding of CCDS. Each Intermediary will be required to provide the specified Compliance Information both as regards (i) itself and its holdings of CCDS as Intermediary and (ii) to the best of its knowledge, the persons (whether Beneficial Owners or other Intermediaries) for whom it is acting as Intermediary and the CCDS which it holds for such persons.

The relevant Compliance Notice will specify, in addition to the nature of the Compliance Information to be disclosed, the reference date and time as at which holdings of CCDS must be disclosed (the **Record Time**), the period during which the relevant information must be disclosed (the **Disclosure Period**) and the procedure for providing such information (which is expected to be in accordance with the usual procedures of the Clearing Systems).

By acquiring and holding CCDS, each Beneficial Owner and Intermediary:

(a) acknowledges that the provision of Compliance Information is mandatory, and undertakes promptly (and in any event within the Disclosure Period) following receipt of a Compliance Notice to provide to the Society (or to its appointed agent) all Compliance Information specified in such Compliance Notice;

(b) authorises and empowers (without the need for any further action or authorisation) each Intermediary through which it holds CCDS to disclose, on its behalf, to the Society (or to its appointed agent) all Compliance Information specified in such Compliance Notice (to the extent that such information is available to such Intermediary); and

(c) acknowledges that the Society may share such Compliance Information, on a strictly confidential basis and for the purpose only of assessing and evidencing its compliance with its obligations under Listing

Rule 14.3.2R, with its agents and its professional advisers (provided that such agents and advisers are bound to confidentiality by contract or by generally applicable law and regulation) and, if it so requests, the Financial Conduct Authority (or such other competent authority as may from time to time be responsible for ensuring compliance with Listing Rule 14.3.2R).

The Society undertakes that it will (i) use all Compliance Information obtained solely for the purpose of assessing and establishing its compliance with its obligations under Listing Rule 14.3.2R, (ii) retain appropriate internal records in respect of such Compliance Information and keep such internal records and information confidential and will not use or disclose any Compliance Information obtained except as set out under (C) above or otherwise as may be required by applicable law and regulation.

As used herein:

Beneficial Owners means each person who for the time being (or, where appropriate, as at the relevant Record Time) holds any interests in CCDS for its own account (and not only as custodian or an Intermediary for another person);

Intermediary means each Clearing System and each Accountholder, custodian, broker or other intermediary who for the time being (or, where appropriate, as at the relevant Record Time) holds interests in CCDS (as custodian or otherwise) for the account of another person (and **Intermediaries** shall be construed accordingly); and

Listing Rules means the rules made under Part VI of the FSMA and contained in the Financial Conduct Authority Handbook (or any successor rule book thereto) from time to time, and references to a numbered Listing Rule are to the relevant rule within the Listing Rules (including any amendment or successor to such rule from time to time).

For these purposes, CCDS will be deemed to be held by a Beneficial Owner or an Intermediary if an interest in such CCDS is (or, where appropriate, was as at the relevant Record Time) credited to the account of such Beneficial Owner or Intermediary with a Clearing System (or to an account with an Intermediary which in turn holds such CCDS, either directly or indirectly through one or more further Intermediaries, in an account with a Clearing System) and references to **held**, **holds**, **holder**, **holding** or similar references shall be construed accordingly.

Listing Rule 14.3.2R requires the Society to ensure that a sufficient number of CCDS are, and on an ongoing basis remain, in 'public hands' within the meaning of Listing Rule 14.2.2R (commonly referred to as the 'free-float' listing requirement).

5. NOTICES

For so long as the CCDS are represented by the Global CCDS Certificate and such Global CCDS Certificate is held on behalf of one or more Clearing Systems, notices may be given to the CCDS holders by delivery of the relevant notice to the relevant Clearing Systems for communication to the relevant Accountholders and Beneficial Owners in substitution for despatch and service as required by Condition 14. Such notice shall be deemed to have been given on the date of delivery of the notice to the relevant Clearing Systems for such communication.

6. MEETINGS; MEMBERSHIP RIGHTS WHILST THE CCDS ARE HELD THROUGH CLEARING SYSTEMS

Save as permitted in paragraph 1 above, investors will hold their CCDS directly or indirectly through Accountholders with the Clearing Systems and will not themselves be entered on the CCDS Register as holder of the relevant CCDS. Instead, the holder entered on the CCDS Register for such CCDS shall be the Nominee and the relevant Accountholder's holding of interests in such CCDS will be recorded in the internal records of the relevant Clearing Systems.

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 CCDS held through the Clearing Systems will be held by the Nominee. Such Nominee will be entered in the CCDS Register as the holder of such CCDS, and will be entitled to exercise the voting and other members' rights attributable to such CCDS. 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 number of CCDS 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 CCDS 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 CCDS.

At a separate meeting of CCDS holders only, the Nominee will have one vote per CCDS 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 the Clearing Systems. The Agency Agreement contains provisions relating to the convening and conduct of such meetings of CCDS holders. 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 CCDS or (ii) otherwise to direct (including by way of electronic consents) how the votes attributable to its CCDS shall be cast at such meeting. For these purposes, notwithstanding the provisions of Condition 12.4(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 CCDS holders. Each proxy shall be appointed in respect of such number of CCDS specified by the Nominee (provided that no two proxies can be appointed in respect of the same CCDS). The Agency Agreement also contains provisions for the passing of resolutions, without the need for a meeting of CCDS holders, by way of electronic consents communicated through the electronic communications systems of the relevant clearing system(s) by or on behalf of CCDS holders holding in aggregate not less than three-quarters of the number of CCDS 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 Conversion Benefits (including any rights to windfall payments) arising on a demutualisation or merger of the Society. Any Conversion Benefits arising on a demutualisation or merger of the Society will belong instead to the Nominee, as the registered holder of the CCDS in the CCDS Register. The Nominee will, on or prior to the date of issue of the CCDS, irrevocably agree to assign to The Nationwide Foundation (or other charities nominated by The Nationwide Foundation) any Conversion Benefits.

7. PRE-EMPTION OPPORTUNITY

For so long as the CCDS are represented by the Global CCDS Certificate and such Global CCDS Certificate is held on behalf of one or more Clearing Systems, **Eligible CCDS holder** shall, for the purposes of Condition 13, mean each Beneficial Owner as at the close of business on the ICSD Business Day prior to the date on which the Pre-emption Notice is given. Such Beneficial Owners may participate in a Pre-emption Offer in accordance with the procedures of the relevant Clearing Systems from time to time, and otherwise in accordance with Condition 13, **ICSD Business Day** means a day on which the Clearing Systems are open for business.

8. RECORD DATE

For so long as all CCDS are held in the Clearing Systems, the Record Date shall be determined in accordance with Condition 6.1 provided that the words "fifteenth day" shall be deemed to be replaced with "ICSD Business Day".

9. PRESCRIPTION

Claims against the Society in respect of any amounts payable in respect of the CCDS represented by the Global CCDS Certificate will be prescribed after 12 years from the due date and shall revert to the Society.

10. PURCHASE AND CANCELLATION

Cancellation of any CCDS purchased and surrendered for cancellation in accordance with Condition 8.2 will be effected by a corresponding reduction in the number of CCDS represented by the Global CCDS Certificate.

11. 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 CCDS holder becoming entitled to bring any action against the Society as contemplated by Condition 11.4) or upon a winding-up or dissolution of the Society, each Beneficial Owner at the time of such breach or, as the case may be, at the Relevant Time (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 or, as the case may be, at the Relevant Time, such Relevant Person had been identified in the CCDS Register as the registered holder of such number of CCDS (the **Underlying CCDS**) as is equal to the number of CCDS which are credited to such Relevant Person's securities account with a Clearing System (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 or, as the case may be, at the Relevant Time, 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 CCDS 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 the Clearing Systems and (subject to the following proviso) each Intermediary (as applicable) shall be conclusive evidence of the identity of the Relevant Persons and the number of Underlying CCDS 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 CCDS and (ii) the relevant Clearing System, which records when taken together evidence a chain of ownership linking the records of such Intermediary and the records of the relevant Clearing System. For these purposes, a statement issued by a relevant Clearing System and/or a relevant Intermediary (as applicable) stating the name of the Relevant Person to which the statement is issued and the number of Underlying CCDS 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 or the Relevant Time (as the case may be), 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 or the Relevant Time (as applicable).

12. SUCCESSION AND TRANSFERS

Upon a transfer by the Society of the whole of its business to a Successor Entity in accordance with Condition 10.2, the Nominee will (unless otherwise agreed as part of the terms of the transfer at the relevant time) direct that the ordinary shares 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 number of CCDS corresponding to their book-entry interest in the CCDS at that time.

PART IX – INDUSTRY OVERVIEW

1. ECONOMIC OVERVIEW AND GENERAL TRENDS IN THE UK FINANCIAL SERVICES INDUSTRY

UK economic conditions remain challenging. Gross Domestic Product (**GDP**) rose by 0.1 per cent. in 2012 and the level of UK output in the third quarter of 2013 was around 2.5 per cent. below the level prevailing in the first quarter of 2008. In the third quarter of 2013, GDP increased by 0.8 per cent. compared to the previous quarter. The labour market has proved more resilient, with employment levels in 2012 exceeding the pre-crisis peak and the unemployment rate declining from 8.4 per cent. in the second half of 2011 to 7.8 per cent. by the end of 2012 and 7.6 per cent. in the three months to September 2013. Consumer price inflation remained above the 2 per cent. target at 2.7 per cent. in September 2013. The Bank of England has maintained interest rates at 0.5 per cent. since 2009 and total asset purchases on a cumulative basis under quantitative easing were £375 billion in September 2013. Nationwide's House Price Index has increased by 5 per cent. over the 12-month period to September 2013. All statistics in this paragraph have been obtained from the sources stated in the notes to the table below.

The table below sets out certain economic indicators for the UK for the periods shown.

	2013	2012	2011	2010	2009
GDP (*£ billions*)(1)	382.8	375.9	376.5	372.5	366.1
Bank of England base rate (*per cent.*)(2)	0.5	0.5	0.5	0.5	0.5
Bank of England total asset purchases (*£ billions*)(3)	375	375	250	199	190
Consumer prices index inflation (*per cent.*)(4)	2.7	2.7	4.2	3.7	2.9
Unemployment rate (*per cent.*)(5)	7.6	7.8	8.4	7.8	7.8
Nationwide House Price Index(6)	341.4	327.1	330.4	327.2	326.8

Notes:

(1) Data for the fourth quarter of each year and the third quarter of 2013. Seasonally adjusted, GDP at constant prices. Source: Office for National Statistics (**ONS**).

(2) As at 30 September 2013 and 31 December in each of 2012, 2011, 2010 and 2009. Source: Bank of England.

(3) Cumulative quantity of assets purchased by the creation of central bank reserves on a settled basis as at 30 September 2013 and 31 December in each of 2012, 2011, 2010 and 2009. Source: Bank of England.

(4) Percentage change in the consumer price index over 12 months as at September 2013 and December 2012, 2011, 2010 and 2009. Source: ONS.

(5) Summary of National Labour Force Survey data, all persons aged 16 and over, seasonally adjusted. Unemployment rate for three months to September 2013 and three months to December 2012, 2011, 2010 and 2009. Source: ONS.

(6) Seasonally adjusted index as at September 2013 and December 2012, 2011, 2010 and 2009. Source: Nationwide.

The UK has a large and diverse financial services sector, including banks, building societies, insurance companies, conventional and alternative asset managers, brokers and securities dealers. Many sector participants continue to be affected by the current challenging economic conditions, the ongoing low interest rate environment, significant regulatory developments (see "*Part XIX: Supervision and regulation*") and the impact of new technology on customer behaviour and market structures (see "*Part II: Risk factors*" under "*Competition in the UK personal financial services markets may adversely affect Nationwide's operations*").

The overall availability of credit in the UK has reduced following the start of the global financial crisis, as some overseas lenders have withdrawn from, or reduced their exposure to, the market (according to data provided by the Bank of England, foreign owned lenders reduced their lending to private non-financial corporations by £45.9 billion between January 2009 and December 2012) and a number of domestic lenders have sought to reduce their activity as market conditions deteriorated both as a result of the global financial crisis and the subsequent European sovereign debt crisis. Credit conditions for both households and businesses remain relatively tight, which has led the Government and the Bank of England to implement a range of measures designed to increase lending including Funding for Lending that is intended to deliver credit easing by allowing banks to borrow at more advantageous rates for up to four years.

2. PARTICIPANTS IN THE UK FINANCIAL SERVICES INDUSTRY

Nationwide's main competitors have traditionally been providers of personal financial services in the UK. These include other building societies, banks, life insurance companies and mutual insurance companies. In recent years, competitive pressures, consolidation and changes in the regulatory environment have led to building societies, banks and insurance companies in the UK increasingly offering similar products and services. In addition, new providers have emerged as competitors in all areas of the UK personal financial services market. A brief description of the organisations with which Nationwide competes is set out below.

2.1 Building societies

Unlike banks, building societies are owned by, and run for the benefit of, their members (see paragraph entitled "*Nature of membership*" in paragraph 2.2 "*Financial Services and Markets Act 2000*" of "*Part XIX: Supervision and regulation*"), who are typically a large proportion of a society's mortgage and savings customers. As a result, a number of building societies, including the Society, manage their businesses so as to target a higher quality of service and a superior product offering to their customers, sometimes including more attractive interest rates, rather than focussing specifically on profit maximisation. This distinctive proposition and ethos has contributed to a recognition on the part of Government that the building society sector should play an important part in the preservation of diversity and competition in the UK financial services market[1].

Building societies are organised under the provisions of the Act (see "*Part XIX: Supervision and regulation*"). The Act imposes a number of restrictions on the operation of a building society as compared to a bank, including:

- Defining the purpose of a building society as "that of making loans which are secured on residential property and funded substantially by its members";
- Restricting the ability of building societies to engage in certain potentially risky 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, creating a floating charge over assets and limiting the risks for which derivatives hedging may be used);
- 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
- Limiting the volume of wholesale funding a building society may raise (at least 50 per cent. of funding is required to be raised from retail depositors).

Over the past 25 years, many building societies have merged with other building societies or, in a number of cases, transferred their businesses to the subsidiary of another mutual organisation or demutualised and transferred their businesses to existing or specially formed banks. As a result, the number of building societies in the United Kingdom has fallen from 137 in 1985 to 45 as at 31 October 2013. Within the UK retail banking sector there have also been a number of significant business combinations and this trend was accelerated by the global financial crisis which began in 2007. Building societies today continue to hold an important share of the UK mortgage and savings market and are recognised by the Government[2] as bringing valuable diversity and competition to the UK banking market.

2.2 Banks

During the global financial crisis a number of vulnerabilities within the banking business model were exposed and, as a result, the UK witnessed a number of bank failures, including those of Northern Rock and HBOS plc. The UK banking sector also saw the consolidation of a number of weaker institutions. As a result, there are now five major banks in the UK: Barclays Bank PLC (**Barclays**), HSBC Bank plc (**HSBC**), Lloyds Banking Group plc (**Lloyds**), The Royal Bank of Scotland (**RBS**) and Santander UK plc (**Santander UK**), some of which have extensive operations worldwide. Together, these institutions represented approximately 60 per cent. of mortgage lending and approximately 60 per cent. of household savings as at 31 December 2012 (according to data produced by the Bank of England) and are therefore both the key competitors for Nationwide and the institutions against which it benchmarks itself.

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1. See the Government's paper published in July 2012, entitled "The Future of Building Societies"
2 Page 9, 'The Coalition: our programme for government'

Two of the major UK banks (RBS and Lloyds) have received significant Government support in the form of major capital injections and emergency funding. In addition, a number of schemes, including the Credit Guarantee Scheme, the Special Liquidity Scheme and Funding for Lending, intended to support the UK financial institutions sector have been made available at different times since 2008. The UK banks currently face an increasingly rigorous regulatory environment (which also affects building societies), have in some cases material exposures to stressed Eurozone economies and are under closer public scrutiny following a number of material failures in sales practices, regulatory compliance and operations. In addition, those banks involved in capital markets face more stringent capital requirements under prospective regulatory frameworks versus their peers who are not so involved and the potential "ring-fencing" of retail activities.

There are also signs of increasing competition in the UK banking market, with a number of new entrants, such as Virgin Money and Metro Bank, and further efforts on the part of the authorities to facilitate competition, including reforms to the process which customers use to switch to alternative providers.

2.3 Insurance companies

The UK insurance industry has traditionally been made up of a large number of mutual insurance organisations and several composite insurers originating a range of products, distributed through building societies, banks, direct sales forces and independent financial advisers. Recent trends include consolidation within the industry, the demutualisation of mutual insurers and the entry of building societies and banks into the market as underwriters as well as distributors. In addition, the growth of internet aggregator sites has made price comparison within the insurance industry more easily available.

2.4 Other competitors

A number of large retailers (such as Tesco and Marks and Spencer) sell financial services to their customers, often through co-operation arrangements with existing banks and insurance companies. In addition, foreign banks, investment banks, insurance and life assurance companies have at various times been active in UK personal financial services, particularly the mortgage and retail savings markets, and a number of companies have expressed a desire to enter the market. Price-based competition has increased as institutions increasingly use low-cost telephone, mail and internet-based distribution channels to offer competitively priced retail savings accounts, mortgages and other financial products. The internet as a distribution channel provides significant opportunities for further competition from both new and existing banking entrants. The market for financial services has also been impacted by the increasing use of internet aggregator websites that provide speedy comparison of financial products and prices. The use of the intermediary sector also allows new entrants to gain access to the UK mortgage market. Since the global financial crisis, a number of entities have launched, or investigated ways to launch, retail banking platforms on a relatively small scale, seeking to take advantage of the problems faced by of some of the larger participants. Competition regulation may also assist potential new entrants if it enforces the breakup of some of the larger participants or the sale of those in public ownership.

3. THE UK RESIDENTIAL MORTGAGE MARKET

The following table sets out the total balances of UK lending secured on residential property and the proportions held by building societies, banks and the Society, in all cases as at 31 December 2012, 2011 and 2010.

As at 31 December	Total balances	Building societies (including the Society)	Banks	Others	Society's share of total UK residential mortgages
	(£ billions)		*(per cent.)*		
2012	1,265.7	16.1	69.0	14.9	11.0
2011	1,246.3	15.8	69.0	15.2	10.6
2010	1,239.7	16.0	68.3	15.7	10.4

Source: Bank of England research, except for information regarding the Society's balances which are taken from the Society's own data supplied to the Bank of England.

The overall size of the new residential mortgage market in the United Kingdom has shrunk considerably since the year to 31 December 2007 when gross new mortgage lending totalled approximately £357 billion. For the year to 31 December 2012, the equivalent figure was approximately £142 billion, in each case according to Bank of England data. This decline is a result of reduced housing activity driven by a lack of consumer confidence in part reflecting falling house prices and prolonged economic uncertainty arising out of the global financial and European sovereign debt crises as well as a constrained funding market and tighter lending criteria. However, the nature of competition is essentially unchanged with competition for new lending business remaining fierce. The popularity of buy to let has grown in recent years from a low point in 2009, although volumes remain at around one-third of their 2007 levels according to CML Research. In recent years, based on English Housing Survey data, there has been a decline in the proportion of people owning their own homes, from a peak of around 71 per cent. in 2003 to 65 per cent. in 2011-2012. The impact of the global financial crisis is still evident in the mortgage market, with far fewer products available which permit high loan to value (**LTV**) ratios and significantly improved residential mortgage margins over those evident in 2007.

The following tables set out gross and net UK lending secured on residential property and the proportions advanced by building societies, banks and the Society, in all cases in each of the years ended 31 December 2012, 2011 and 2010. For these purposes, gross lending is all advances (including for house purchase, remortgage and buy to let) and net lending is gross lending less principal repaid.

Year ended 31 December	Gross UK residential mortgages advanced	Building societies (including the Society)	Banks	Others	Nationwide's share of gross UK residential mortgages advanced
	(£ billions)		*(per cent.)*		
2012	142.1	22	70	8	14.5
2011	138.3	17	77	6	12.4
2010	133.8	15	80	5	9.1

Year ended 31 December	Net UK residential mortgages advanced	Building societies (including the Society)	Banks	Others	Nationwide's share of net UK residential mortgages advanced
	(£ billions)		*(per cent.)*		
2012	8.0	82	46	(28)	72.8
2011	6.6	(34)	204	(69)	19.6
2010	6.5	(97)	315	(118)	—

Source: Bank of England research, except for information regarding the Society's lending, which is taken from the Society's own data supplied to the Bank of England.

Note: Figures in brackets indicate net outflows during the year. In the year ended 31 December 2010, the Society had net outflows and so no percentage share is given. Net outflows in other institutions have also had a distorting effect on the Society's share of net UK residential mortgages advanced in 2011 and 2012.

A feature of the mortgage market in the United Kingdom is the differential pricing structure that has developed in response to increased competition. New customers are offered attractive interest rates in the form of discounts or cash-backs for an initial period of time (referred to as "frontbook" rates), so that, in the period prior to the global financial crisis, a growing number of residential mortgage borrowers actively sought to replace existing mortgages with new mortgages at lower frontbook rates rather than move on to lenders' standard (or "backbook") interest rates. The rapid fall in interest rates since the start of 2009 and a decline in house prices has meant that a majority of borrowers now stay on lenders' backbook rates at the end of their initial mortgage deal period as evidenced by a rise in the proportion of borrowers on standard variable rates from 13 per cent. in January 2009 to 34 per cent. in December 2012 (source: CACI Mortgage Market Database). This may be either through necessity, as the LTV ratio of their mortgage has risen as a result of house price falls and they are unable to refinance, and/or due to the fact that the fall in interest rates has meant that current backbook rates are more in line with, or better than, the frontbook rate that is expiring. In the year to 31 December 2012, remortgaging totalled an estimated £41.1 billion, down 12 per cent. on the year to 31 December 2011. Overall, the profitability of mortgage lending has improved in recent years as lenders are able to extract larger margins on new business and, in some cases, have been able to widen margins on backbook rates.

4. THE UK RETAIL SAVINGS MARKET

The following table sets out the total balance of UK retail savings held by building societies, banks, National Savings and Investments (**NS&I**) and the Society, in all cases as at 31 December 2012, 2011 and 2010.

As at 31 December	Total balances	Annual rate of growth	Building societies (including the Society)	Banks	NS&I	Society's share of total UK retail savings
	(£ billions)			*(per cent.)*		
2012	1,181.8	5.0	21.1	70.2	8.7	10.5
2011	1,125.7	2.7	22.0	68.8	9.2	11.2
2010	1,095.8	2.9	21.9	69.0	9.1	11.2

Source: Bank of England, except for information regarding the Society's retail savings, which is taken from the Society's own data supplied to the Bank of England. Building society figures also include the Society's own data.

The total balance of UK retail savings was £984 billion at 31 December 2007 with balances having grown by 8.2 per cent. over the level at 31 December 2006, according to Bank of England data. The annual growth rate of the UK retail savings market has slowed since 2007 with growth rates of 2.9 per cent. in 2010 and 2.7 per cent. in 2011. Although the growth rate accelerated to 5.0 per cent. in 2012, the rate of growth remains at depressed levels. This slowdown is due to a reduction in net receipts and interest capitalisation; the former due to pressures on households' income and preference to reduce their indebtedness and the latter due to record low interest rates. The introduction of Funding for Lending has eased competition for retail deposits considerably and has led to a significant reduction in the Society's marginal retail funding costs. The availability of Funding for Lending has been extended by one year to January 2015, suggesting that monetary policy will remain accommodative and deposit interest rates subdued.

PART X – DESCRIPTION OF NATIONWIDE'S BUSINESS

1. OVERVIEW

The Society is the largest building society in the United Kingdom in terms of total assets, with £193 billion of assets as at 30 September 2013. It has over 775 branches and 15 million customers, meaning that Nationwide has a relationship with around one quarter of the population of the UK.

Nationwide's core business is providing personal financial services, with retail activities divided into distinct portfolios: residential mortgage loans, savings and general insurance; personal banking products; and financial planning. In addition, Nationwide's activities include specialist lending in both the commercial real estate and buy to let sectors, as well as deposit-taking for SMEs. In addition, Nationwide maintains an investment portfolio of debt securities for its own account.

Nationwide's strategic agenda for the past six years has consistently focused on:

- ensuring a strong, stable and secure business, with diversified income streams;
- increasing its share of the retail banking market, providing a meaningful alternative to the established plc banks;
- using its mutual status to provide service and products that are demonstrably better than those of its plc banking competitors; and
- transforming and modernising the business.

As at 30 September 2013, Nationwide held approximately 11.5 per cent. (according to Bank of England data) of total UK residential mortgage balances and approximately 10.8 per cent. (as calculated by Nationwide based on Bank of England data) of total UK retail savings balances. The Society is the third largest residential mortgage lender in the United Kingdom and one of the three largest household savings providers. Substantially all of Nationwide's activities are in the United Kingdom.

As a mutual organisation, the Society has historically not had equity shareholders, but has been managed for the benefit of its members, being the majority of its retail savings and residential mortgage customers as well as holders of deferred shares, such as PIBS, issued by it. Following the Offer, the Society's members will include the holder or holders of the CCDS. See *"Investors in the CCDS who hold beneficial interests in the CCDS through an account with a Clearing System will not be members of the Society by virtue of their investment in CCDS and must rely on the relevant Clearing System's procedure"* and "*Investors will have no voting rights at general meetings of the members of the Society for so long as the CCDS are held through an account with a Clearing System*" under "*Risks related to the CCDS*" in "*Part II: Risk factors*". Further details of the interrelation between the Society's historical membership and the CCDS holders are set out in "*Part VII: Overview of certain provisions of the Rules of the Society and the Act relating to the CCDS*". See also paragraph 2.1 "*Benefits of mutual status*" and paragraph 3.2 "*Promote the benefits of mutuality*" in this "*Part X: Description of Nationwide's business*" below.

Nationwide is focused on serving the interests of its customers and members (which, following the Offer, will include holders of CCDS) as a whole, while retaining sufficient profits to increase and further develop its business and to meet all applicable regulatory requirements.

Nationwide benchmarks its products and performance against a group of leading retail banks operating in the UK (Barclays, HSBC, Lloyds, Santander UK and RBS) and typically 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 Directors believe that the Society provides better service to its customers than that offered by any of its competitors and this is a key component of Nationwide's strategy.

2. STRENGTHS OF NATIONWIDE'S BUSINESS

The Directors believe that Nationwide's key competitive strengths are:

2.1 Benefits of mutual status

As a mutual organisation, the Society's members have historically also been its customers. Nationwide seeks to return value to its customers, and therefore its members, through a combination of beneficial pricing on its products and enhanced customer service. The Directors believe that its pricing strategy provides Nationwide with an inherent competitive advantage over banks and other non-mutual organisations, since these benefits are delivered to members out of pre-tax profits, whereas dividends paid to the shareholders of non-mutual organisations must be paid out of post-tax profits. Nationwide's policy of delivering enhanced levels of customer service reflects the fact that its customers are also its members, and contributes to the development of a core base of committed and loyal customers, see paragraph 2.2 "*Strong customer relationships*" below.

The Society aims to optimise its profits to provide long-term stability, adding sufficient reserves to support its capital base and investing in the business to deliver growth through competitive products and a superior customer experience to that provided by its competitors. To support its policy of profit optimisation, Nationwide's income is deliberately managed to provide consistent long-term good value on products and its cost base is organised to deliver better service to customers. This service model aims to deliver long-term stable profits supported by a committed and loyal customer franchise. As a result, the Directors believe the benefits of the Society's mutual status align the interests of its existing members, who receive competitive pricing and high levels of customer service, and the holders of CCDS, as long-term stable profits, if delivered, will enable the Society to declare an appropriate annual return to CCDS holders.

Nationwide's status as the largest building society in the UK in terms of total assets means that it also is able to play an active role in shaping the ongoing debate about the future of the financial services industry. In particular, the Society continues to lobby both the Government and European authorities in areas concerning regulation, depositor protection and other proposed legislation which affects the Society with a view to ensuring it is able to meet the ongoing financial needs of its members and customers.

2.2 Strong customer relationships

Nationwide's focus on delivering long-term value to its customers through competitive and transparent pricing, its high levels of customer service, its policy of rewarding its most committed customers with added value benefits and its presence as a consumer champion in financial services have all contributed to growth in Nationwide's valuable customer base.

Nationwide provides simple, transparent products and acts as a consumer champion for clarity in financial services. It takes its role as a corporate citizen seriously, and has a strong corporate responsibility ethos aligned to its business priorities of housing, savings and financial inclusion.

Nationwide consistently achieves a leading position in GfK NOP Financial Research Surveys, which are based on three-months rolling data and measure net product service satisfaction (being the proportion of extremely or very satisfied customers minus the proportion of extremely/very dissatisfied customers), across current account, mortgage and savings products. Nationwide's internal customer surveys also show generally increasing satisfaction with its branch, telephone and internet services since June 2010. Nationwide's complaint levels are very low and, according to FCA complaints data, were 19 per cent. lower in 2012 than in 2010. Despite being among the largest mortgage and savings providers in the UK and having a growing market share in a number of consumer banking products, Nationwide accounted for approximately 2.2 per cent. of total financial services industry complaints from March to September 2013 according to figures published by the FCA, and its complaint handling record is strong, with only 11 per cent. of Nationwide's original decisions being overruled by the Financial Ombudsman Service (compared to 64 per cent. for the financial services industry as a whole) in the period between 1 January and 30 June 2013.

The Directors believe that Nationwide's strong customer relationships are a significant strength of its business and have set five-year strategic goals of achieving at least a 6 per cent. lead over the Society's nearest competitors in customer service satisfaction and of growing its valuable customer relationships to at least 7.5 million by 2018.

2.3 Leading market positions with growth potential

The Society is the largest building society by assets in the United Kingdom, with assets greater than one and a half times the combined size of the rest of the UK building society sector. Nationwide is one of the three largest household savings providers and the third largest residential mortgage provider in the United Kingdom, with market shares of approximately 10.8 per cent. and approximately 11.5 per cent., respectively, as at 30 September 2013. It also has a growing base of current account customers, which Nationwide estimates accounts for approximately 6 per cent. of main standard and packaged current accounts in the United Kingdom and which it intends to grow to approximately 10 per cent. As at 30 September 2013, Nationwide had approximately 15 million customers which it served through more than 775 branches and a range of other distribution channels described under "*Distribution network*" in paragraph 6.2 "*Retail business stream*" below.

Nationwide has a broad, diversified business structure, with a portfolio of core retail products comprising mortgages, savings and general insurance, complemented by personal banking and financial planning products. The Directors believe that Nationwide's leading market positions in the savings and mortgage markets, and its large customer base, mean that it is well-placed to increase its shares in other retail financial services product lines, to meet the demands of customers in response to greater life expectancy, lower state and occupational pension provision and an accumulation of property-based wealth. Nationwide continues to attract significant volumes of new current accounts, with over 214,000 new accounts opened in the six months to 30 September 2013, over 365,000 new accounts opened in the financial year ended 4 April 2013 and over 359,000 new accounts opened in the financial year ended 4 April 2012, taking Nationwide's current account base to 5.3 million at 30 September 2013. Nationwide's market share of personal loan gross lending in the six months to 30 September 2013 was estimated on the basis of British Bankers' Association personal lending data at 5.4 per cent. and its strategic goals include increasing its estimated market share of outstanding personal loan balances to at least 5.0 per cent. from its estimated level of 3.9 per cent. at 30 September 2013.

2.4 Strong balance sheet and capital base, with a focus on risk management

Nationwide has strong capital and liquidity ratios, a balance sheet underpinned by low risk, high quality residential mortgage assets, a strong retail funding base and a broad range of wholesale funding sources. As a result of Nationwide's strong funding base and conservative approach, it was able to withstand the pressures faced by the industry during the global financial crisis from 2008 onwards and did not require Government financial assistance to maintain its business. Nationwide's long-term credit ratings have remained strong throughout the global financial crisis as illustrated by the table below which sets out the Society's long-term ratings and those of the banks which the Directors regard as Nationwide's peer group as at 31 December 2007 (prior to the commencement of the global financial crisis) and as at 7 November 2013.

	The Society	**Barclays**	**HSBC**	**Lloyds**	**Santander UK**	**RBS**
As at 31 December 2007						
Fitch	AA-	AA+	AA	AA+	AA-	AA+
Moody's	Aa2	Aa1	Aa1	Aaa	Aa3	Aaa
S&P	A+	AA	AA	AA	AA	AA
As at 7 November 2013						
Fitch	A	A	AA-	A	A	A
Moody's	A2	A2	Aa3	A2	A2	A3
S&P	A	A	AA-	A	A	A-

Nationwide maintains robust levels of Core Tier 1 capital (its Core Tier 1 capital ratio was 14.2 per cent. at 30 September 2013 and 12.3 per cent. at 4 April 2013) and the Directors believe that it is well-placed to meet the new capital and liquidity requirements from both Europe and the implementation of the recommendations of the Independent Commission on Banking. The CCDS represent the outcome of the Society's work with both UK and

European regulators to develop and launch a mutual-compatible Common Equity Tier 1 instrument, which the Directors consider will significantly enhance its capital base. For a discussion of the Society's pro forma CRD IV Core Tier 1 ratio on a fully loaded basis, see *"Part XV: Capital Adequacy"*.

Nationwide places considerable emphasis on its risk policies and governance. It has created, and actively monitors, five high level risk categories (financial, lending, operational, customer and compliance, and strategic risks), which are supported by a structure of lower level risk categories together with a framework and strategy for the management of these risks. Nationwide's approach to risk management is reflected in the high quality of its residential mortgage asset portfolio, with residential mortgages three months or more in arrears at 30 September 2013 equalling 0.70 per cent. of its total residential mortgage portfolio compared with the Council of Mortgage Lenders' industry average of 1.75 per cent. The Society continues to focus on achieving long-term stable levels of profit and the robustness of its risk assessment process is key to achieving this goal.

2.5 Significant market opportunity

Since 2008 there has been growing public disquiet about the role and business practices of the UK banks, accompanied by generally positive media comment about the role of mutual organisations such as building societies. This has been reinforced by Government statements, including in the Government's agreement entitled "*The Coalition: our programme for government*" and, more recently, the Government's paper published in July 2012, entitled "*The Future of Building Societies*", setting out its strategy to foster diversity in the financial sector through creating a level playing field and removing unnecessary barriers to growth for building societies, while maintaining the distinctiveness of the mutual sector.

The Directors believe that this provides a unique opportunity for building societies to compete more significantly with the major banks operating in the UK and, in particular, for Nationwide, given its important position in the UK personal financial services market. Nationwide has a large customer base and an extensive branch network, which act as significant barriers to entry and provide opportunities to cross-sell new products to existing customers. Nationwide is in the process of optimising its distribution network to address the need to operate on an integrated basis through multiple direct and online channels, see "*Distribution network*" in paragraph 6.2 "*Retail business stream*". In addition, Nationwide has recently completed a five-year £1.6 billion transformation programme designed to significantly increase the efficiency of its business and to improve the range of products it offers, see paragraph 7 "*Investments*" below.

2.6 Experienced management team leading a motivated employee base

Nationwide has an experienced executive management team, which has a broad range of complementary experiences as set out in "*Part XI: Directors, employees and corporate governance*" and a clear vision for the future of the Society. The Society is compliant with the Building Societies Association Guidance for Building Societies on the UK Corporate Governance Code.

Nationwide treats its employees with fairness, integrity and respect. Its corporate culture, expressed through "Pride" values, underpins its entire approach to business and ensures that the employees act as ambassadors for Nationwide's products and the Nationwide brand at all times. The engagement and enablement of Nationwide's employees is monitored on an annual basis as part of the Society's key strategic goals. In the year to 30 September 2013, Nationwide achieved an engagement score of 74 per cent. and an enablement score of 72 per cent. (in each case as measured by ViewPoint). Both scores were in excess of the financial services benchmark (of 64 per cent. and 65 per cent., respectively) and meeting the Society's strategic goal of achieving the high performance benchmark in both categories (of 73 per cent. and 70 per cent., respectively). Nationwide's high performance culture is also reflected in the fact that every employee benefits from an annual bonus which is dependent on Nationwide's performance each year, with performance in this context being measured in terms of underlying profit, growth in current account base and customer satisfaction ratings. Employee feedback through ViewPoint ensures that Nationwide continues to be a fair, equitable and inclusive employer.

The Directors believe that, through its experienced management team and motivated employees, Nationwide is ideally placed to leverage the strengths of its mutual status, customer relationships and market and financial positions to grow its personal banking business and to compete more effectively with its main bank competitors.

3. STRATEGY

Nationwide's vision is to be the first choice for financial services in the UK. The Society is committed to remaining a building society because it believes that this is in the best long-term interests of its current and future members. Nationwide's strategy is based on three inter-dependent themes:

- **Its members**: Nationwide is dedicated to building enduring relationships with its members, founded on trust and confidence in its reputation for offering help and good advice, a complete range of financial products, great service, fair prices, honesty and being a good corporate citizen. Nationwide is owned by its members and focused on serving their needs.

- **Its people**: Nationwide has a culture, underpinned by its heritage, which drives the right customer outcomes and differentiates Nationwide from the banks. It recruits, develops and rewards the right values, professional standards and behaviours in its people.

- **Its business model**: Nationwide aims to make sufficient profit to strengthen its balance sheet, to allow it to grow and to invest for the future needs of its members and the sustainability of the Society. Profits above the level necessary to sustain its business are returned to its membership through better product pricing, enhanced service and rewards for loyalty. Nationwide stands up for the rights and interests of its members and, by virtue of its size, scale and reach, acts as the standard bearer of the mutual sector.

While Nationwide aims primarily to drive its strategy through organic means, it actively seeks other opportunities that offer scale diversification benefits to add value to its members.

In order to achieve its goal of becoming the first choice for financial services in the UK, Nationwide intends to:

- Position itself as a meaningful and viable alternative brand;

- Promote the benefits of mutuality; and

- Diversify its business model.

3.1 Position itself as a meaningful and viable alternative brand

Nationwide is currently one of the leading providers of retail savings and residential mortgage products in the UK, see paragraph 2.3 "*Leading market positions with growth potential*" above. Nationwide's aim, however, is to be recognised as the first choice for financial services in the UK. Nationwide is therefore positioning itself as a meaningful and viable alternative brand in the provision of current accounts, personal loans and credit cards. In particular, the Directors believe that current accounts are critical in enabling Nationwide to cultivate broader and deeper relationships with new and existing customers.

As a national player with the size, scale and distribution capability to compete with the major banks operating in the UK, Nationwide intends to:

- Maintain its position as a leading provider of customer service. In particular, Nationwide intends to increase the profile of its brand and to continue to reinforce its service culture through its "Pride" values, reward structure and continued service monitoring and feedback across all customer interaction points.

- Focus on its current account offering as the gateway product to deeper and broader customer relationships and on building scale across all products. The Society's new banking system, a core part of its transformation programme, has delivered the first products in a new range of current accounts designed to attract new customers and provide greater choice to existing customers.

- Optimise its distribution facilities to ensure it matches changing customer trends, while providing an efficient and effective means of driving revenue. In particular, Nationwide has introduced a new internet bank which became operational in 2011 as part of its transformation programme, see "*E-commerce*" under paragraph 6.2 "*Retail business stream*" and paragraph 7 "*Investments*" below. Nationwide also expects to rationalise its branch network to reduce overlap and update its existing branches and to continue to develop its other electronic distribution channels with a view to reducing costs and increasing customer choice.

- Continue to develop new systems and processes to deliver a broader range of banking and savings products and ensure that its processes are orientated to deliver leading customer service. The new banking system delivered through the transformation programme is a key element of this strategy.

3.2 Promote the benefits of mutuality

Nationwide provides long-term value to the Society's membership through sustainable pricing, actively targeting the delivery of value to its most committed and valuable customers through its status as a mutual. The delivery of pricing benefits to members is balanced by the Directors' belief that it is in the long-term best interests of all of the Society's present and future members to target a level of profit that is sufficient to achieve capital self-sufficiency. The goal complements the need to achieve sufficient profitability to deliver an appropriate level of return to investors in the CCDS.

Given the current media focus on negative banking practices in the UK, Nationwide intends to continue to emphasise the safety and security offered by its mutual business model. As a building society, Nationwide's heritage and underlying balance sheet strength is based on accepting retail deposits and lending these to members to purchase residential property. Nationwide intends to continue to adopt a conservative risk appetite and to maintain a strong balance sheet with appropriate levels of capital and liquidity and access to a wide range of funding sources, thereby offering safety and security, and to drive deeper relationships with all stakeholders (including consumers, rating agencies, regulators, investors and providers of wholesale funding).

Reflecting its mutual status and the fact that its customers are also its members, Nationwide intends to continue to provide simple, transparent products and to act as a consumer champion for clarity in financial services.

Nationwide operates in a commercially competitive manner, aiming to be as cost efficient as its competitors in the banking sector in order to maintain its mutual pricing advantage, while providing industry leading levels of employee engagement and enablement. In this connection, Nationwide expects to increase its use of shared services to reduce costs and improve efficiency.

3.3 Diversify its business model

Nationwide's core business is providing retail personal financial services. Nationwide recognises that in order to compete ever more effectively with its competitors, it must build a broader business portfolio to complement its existing core business and diversify and expand its income streams. To date, this evolution has largely consisted of making controlled development into areas adjacent to its core, beginning with a move into cross-selling home and life insurance to mortgage customers. This was followed by the launch of FlexAccount, Nationwide's personal current account. This move into current accounts was later accompanied by investment in the associated banking businesses of credit cards and personal loans, and the provision of protection and investment advice to new and existing customers.

Nationwide's transformation programme is a key part of its business diversification strategy with its new banking system and internet bank in particular being intended to drive greater penetration into the personal current accounts market. For further information on Nationwide's transformation programme, see paragraph 7 "*Investments*" below. Nationwide also intends to continue to expand its already strong presence in the residential buy to let market and broaden its commercial deposit taking activities.

Nationwide continues to consider potential acquisition opportunities that offer scale, business and diversification benefits that the Directors believe will add value to its members.

Strategic goals

Nationwide's principal five year strategic goals are:

- achieve at least a 6 per cent. lead over the Society's nearest competitors in customer service satisfaction;

- grow its base of valuable customer relationships to at least 7.5 million;
- grow its market shares in mortgages (to at least 12 per cent.), in personal current accounts (towards its long-term target of 10 per cent.) and in all other active product lines (to at least 5 per cent.) and maintain its market share in savings (of at least 10 per cent.);
- have a Core Tier 1 capital ratio in the top quartile of its peer group;
- maintain average risk weightings in the bottom quartile of its peer group;
- become self-sufficient in capital with a profit of £1 billion per annum;
- run an efficient business with a cost income ratio of between 45 and 50 per cent.; and
- achieve the high performance external benchmark for both employee enablement and engagement as measured by its annual ViewPoint employee survey.

4. HISTORY AND DEVELOPMENT OF THE SOCIETY

Building societies have existed in the UK for over 200 years. From the outset, they were community-based, cooperative organisations created to help people purchase homes. The main characteristic of building societies is their mutual status, meaning that they are owned by their members, who are primarily retail savings customers and residential mortgage customers. The Society's origins go back to the mid 1800s.

Over the past 25 years, many building societies have merged with other building societies or, in some cases, transferred their businesses to the subsidiary of another mutual organisation or demutualised and transferred their businesses to existing or specially formed banks. As a result, the number of building societies in the UK has fallen, from 137 in 1985 to 45 as at 31 October 2013. One consequence of this decrease is that almost all of Nationwide's principal competitors are banks. The Society believes that its mutual status allows it to compete successfully with banks, and it is the Society's strategy to remain a building society.

In 1997, when many of Nationwide's competitors that were building societies demutualised, Nationwide experienced a sharp increase in the number of new retail savings accounts. Nationwide believes that many of these accounts were opened because customers expected the Society to demutualise and wanted to receive any associated windfall distributions. At the Society's 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, Nationwide has generally required all new members opening accounts with it since 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, including:

- a merger with Portman Building Society (which at the time of the merger had assets of approximately £20 billion compared to Nationwide's £160 billion) in August 2007;
- mergers in 2008 with Cheshire Building Society and Derbyshire Building Society which at the time of the mergers had, respectively, assets of approximately £4.6 billion and £6.2 billion (including loans and advances to customers of £3.7 billion and £5.0 billion, respectively) and liabilities of £4.5 billion and £6.2 billion (including customer retail savings of £3.2 billion);
- the acquisitions of approximately £1.5 billion of selected assets and liabilities representing the core part of the Dunfermline Building Society in March 2009 (assets included loans and advances to customers of £1.0 billion and liabilities included customer retail savings and current accounts of £2.3 billion) and a further social housing portfolio of approximately £0.4 billion in June 2009; and

- the acquisition of a prime residential mortgage portfolio of approximately £1.2 billion from the Bank of Ireland in December 2011.

In addition, the Society opened its first branch in the Republic of Ireland in March 2009. The Society believes that these developments have added value to Nationwide, improved its distribution footprint and helped to grow the membership and are a testament to the strength of Nationwide and its ability to provide support to the building society sector in ways which add value to its membership.

The Nationwide brand is the Society's principal retail personal financial services brand. Nationwide retains a branch presence for each of the Derbyshire, Cheshire and Dunfermline brands, although the Directors consider that the strength of the Nationwide brand significantly outweighs those other brands, and the Society intends, by March 2015, to have completed a programme to migrate all of its existing operations onto the Nationwide brand.

5. 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 30 September 2013 are set out below:

Wholly-owned subsidiary undertakings	Nature of business
Nationwide Syndications Limited	Syndicated lending
The Mortgage Works (UK) plc	Centralised mortgage lender
Derbyshire Home Loans Limited(1)	Centralised mortgage lender
E-Mex Home Funding Limited(1)	Centralised mortgage lender
UCB Home Loans Corporation Limited(1)	Centralised mortgage lender
Nationwide International Limited(1)(2)	Offshore deposit taker

Notes:

(1) Regulated entities subject to regulations which require them to maintain capital at agreed levels and so govern the availability of funds for distribution as dividends.

(2) The Board has endorsed a decision to change the status of Nationwide International Limited from a subsidiary to a branch. The Society expects this change to happen during its current financial year.

All the above subsidiary undertakings are limited liability companies that are registered in England and Wales and operate in the UK except for Nationwide International Limited, which is registered and operates in the Isle of Man.

Nationwide Syndications Limited is a wholly owned mortgage lender specialising in syndicated commercial loans to registered housing associations. As at 30 September 2013, it held mortgage assets of £0.7 billion.

TMW is a wholly owned centralised mortgage lending subsidiary, specialising mainly in residential buy to let lending to individuals. As at 30 September 2013, it had mortgage assets of £20.0 billion. In the year to 4 April 2013, TMW's gross lending was £3.3 billion, representing 15.3 per cent. of Nationwide's total gross residential mortgage lending in that year.

Each of Derbyshire Home Loans Limited (**Derbyshire**), E-Mex Home Funding Limited (**E-Mex**) and UCB Home Loans Corporation Limited (**UCB**) is a wholly owned subsidiary which has ceased to offer new lending.

Nationwide International Limited is an offshore deposit taker based in the Isle of Man. It attracts savings balances from depositors seeking to benefit from the Isle of Man's offshore status, and has customers based in approximately 160 countries. As at 30 September 2013, it held savings balances of £4.7 billion.

Nationwide has a number of funding programmes which utilise controlled borrowing vehicles to which mortgages are transferred for the purposes of securitisation or the issuance of covered bonds. Each of these entities is also fully consolidated in Nationwide's accounts.

Details of Nationwide's principal controlled funding entities as at 30 September 2013 are set out below:

Other Group undertakings	Nature of business	Country of registration	Country of operation
Nationwide Covered Bonds LLP	Mortgage acquisition and guarantor of covered bonds	England and Wales	UK
Silverstone Master Issuer PLC	Funding vehicle	England and Wales	UK

6. BUSINESS STREAMS

6.1 Introduction

Nationwide has three business streams as follows:

- ***Retail*** – which includes Nationwide's residential mortgage lending, consumer banking, retail funding and insurance and investments activities.
- ***Commercial*** – which comprises Nationwide's commercial lending business.
- ***Head Office Functions*** – which comprises treasury, head office and central support functions. Head office and central support functions include executive management, corporate secretariat, legal services, human resources, strategy and planning, finance, risk management, capital management, corporate affairs, property services and internal audit.

The following table sets out summary information relating to Nationwide's business streams for the six month period ended and as at 30 September 2013.

	For the six months ended/as at 30 September 2013			
	Retail	Commercial	Head office functions	Total
	(£ millions)			
Net interest income	1,200	61	(177)	1,084
Total revenue	1,370	70	(53)	1,387
Underlying profit/(loss) before tax	592	(182)	(78)	332
Total assets[(1)]	144,687	18,987	29,658	193,332
Total liabilities	136,406	817	49,362	186,585

Note:
(1) Retail assets include goodwill arising on the acquisition of TMW.

The following table sets out summary information relating to Nationwide's business streams for the financial year ended and as at 4 April 2013.

	For the financial year ended/as at 4 April 2013			
	Retail	Commercial	Head office functions	Total
	(£ millions)			
Net interest income	1,941	74	(34)	1,981
Total revenue	2,374	92	19	2,485
Underlying profit/(loss) before tax	899	(447)	19	433
Profit/(loss) before tax	828	(447)	(213)	168
Total assets[(1)]	138,810	20,371	31,537	190,718
Total liabilities	131,184	526	52,428	184,138

Note:
(1) Retail assets include goodwill arising on the acquisitions of TMW and the Derbyshire Building Society.

6.2 Retail business stream

Nationwide's Retail business stream 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 protection and investments and general insurance solutions, both directly and through intermediary sales channels.

Residential mortgage lending

The majority of Nationwide's lending portfolio consists of UK residential mortgage loans to individuals which are secured on the residential property of the borrower on terms which allow for repossession and sale of the property if the borrower fails to comply with 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 Nationwide's credit requirements for prime lending) or specialist residential lending (which are loans advanced to borrowers who intend to let the mortgage property). Nationwide also has outstanding specialist mortgage loans which were advanced to borrowers who self-certified their income and to other borrowers who did not meet its prime borrower credit requirements, although no such new specialist lending is currently undertaken. Nationwide's policy is for all residential mortgage loans to be fully secured first priority loans on the mortgaged property, to ensure that its claim to the property, in the event of default, is senior to those of other potential creditors. As a result, Nationwide's residential mortgage lending carries lower risk than many other types of lending.

As at 30 September 2013, Nationwide was the third largest mortgage lender in the United Kingdom (as measured by total loans outstanding) with total residential mortgage lending fully secured on residential property of £141.2 billion. During the six months ended 30 September 2013 and during the year ended 4 April 2013, Nationwide's gross new lending amounted to £14.0 billion and £21.5 billion, respectively. Nationwide's residential mortgage loans are generally granted for terms of 21 years, although their typical life is less than this due to the high level of early redemptions, characteristic of the UK residential mortgage market.

As at 30 September 2013, Nationwide's outstanding prime and specialist residential lending was £115.7 billion and £25.6 billion, respectively. The following table sets out a breakdown of Nationwide's prime and specialist residential mortgage lending outstanding balances as at 30 September 2013.

	30 September 2013
	(£ billions)
Prime[(1)]	115.7
Specialist[(1)]	25.6
of which:	*(per cent.)*
Buy to let	82%
Self-certified[(2)]	12%
Other[(2)] [(3)]	6%
Total	**100%**

Notes:

(1) For trend information on the development of Nationwide's prime and specialist mortgage lending portfolios, see paragraph 5 "*Lending and loan portfolios*" in "*Part XVI: Selected statistical information*".

(2) New loans no longer advanced

(3) Other includes £0.4 billion of sub-prime lending, a majority of which was acquired as part of the mergers with the Cheshire and Derbyshire building societies.

Nationwide's specialist lending division operates through TMW which had gross lending during the six months ended 30 September 2013 and during the year ended 4 April 2013 of £1.7 billion and £3.3 billion, respectively, making it an influential lender in the specialist residential mortgage sector.

The Society has a national franchise within the United Kingdom, with a regional distribution of residential mortgage lending to individuals generally matching the UK's regional gross domestic product distribution.

The following table sets out the geographical distribution of the Society's residential mortgage loans as at 30 September 2013.

	As at 30 September 2013
Region	
Central England	22%
Greater London	22%
Northern England	20%
South-east England (excluding London)	11%
South-west England	9%
Scotland	9%
Wales and Northern Ireland	7%
Total	**100%**

Nationwide currently offers fixed rate and tracker rate mortgages. These products have a set rate, or a set methodology for determining a variable rate, for an initial set term, after which the rate reverts to one of the Society's two general variable rates. The Society's fixed-rate products currently offer a term of one, two, three, four or five years, but the Society has from time to time offered longer fixed terms, including 10 and 25 years. The Society's tracker rate products bear interest during the initial term (currently two or three years) at a variable rate that is a fixed percentage above the Bank of England's base rate. After the end of the initial fixed rate or tracker period, the interest rate reverts to either the Society's base mortgage rate (if the mortgage was originated on or before 29 April 2009) or the Society's standard mortgage rate (if the mortgage was originated on or after 30 April 2009). Both the base mortgage rate and the standard mortgage rate are variable rates set at the Society's discretion, except that the base mortgage rate is guaranteed to be not more than 2 per cent. above the base rate set by the Bank of England from time to time.

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 of its mortgage products. The early repayment charges generally apply for repayment made prior to the expiration of the fixed or tracker rate for the particular product.

The following table sets out the total residential mortgage loans to individuals by product type that Nationwide had outstanding as at 30 September 2013 as a percentage of its total residential mortgage loans to individuals:

	As at 30 September 2013
Mortgage type	
Fixed rate	36%
Tracker rate	8%
Standard variable rate (including BMR)	56%
Total	**100%**

The following table sets out an analysis of the Society's gross residential mortgage loans advanced by product type during the six months ended 30 September 2013 and during the financial year ended 4 April 2013.

	For the six months ended 30 September 2013	For the financial year ended 4 April 2013
Mortgage type		
Fixed rate	89%	78%
Tracker rate	4%	12%
Standard variable rate (including BMR)	7%	10%
Total	**100%**	**100%**

The Directors believe that Nationwide's asset quality has remained strong as a result of its continued prudent approach to lending. The average LTV ratio of new residential mortgage lending during the six months ended 30 September 2013 and during the year ended 4 April 2013 was 69 per cent. and 67 per cent., respectively, and the indexed LTV ratio for the whole residential portfolio was 49 per cent. at 30 September 2013. Only 4 per cent. of Nationwide's total mortgage book has an indexed LTV ratio in excess of 90 per cent., based on value, as at 30 September 2013. The proportion of Nationwide's mortgage accounts which are three months or more in arrears was 0.70 per cent. as at 30 September 2013, less than half of the Council of Mortgage Lender's (**CML**) industry average of 1.75 per cent.

The following table compares Nationwide's residential mortgage loans which are three months or more in arrears as at 30 September 2013 against the UK industry average for such loans as at the same date.

	As at 30 September 2013	
	Nationwide[1]	**UK industry average**[2]
Arrears		
3-6 months	0.34[3]%	0.80%
6-12 months	0.23[3]%	0.57%
Over 12 months	0.13[3]%	0.38%

Notes:

(1) Nationwide prime and specialist residential lending, including third party originated lending.

(2) Source: CML.

(3) These percentages are based on the total residential mortgage lending portfolio.

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

In current market conditions, Nationwide is particularly keen to support its existing members and has introduced products to support first-time buyers, such as its Save to Buy Savings Account, which is a dedicated savings account to help a first time buyer save a deposit combined with a competitive interest rate on the buyer's mortgage when the buyer is ready to buy his first home. The Directors believe that first-time buyers offer significant potential for additional sources of income through the distribution of insurance and personal investment products. During the six months ended 30 September 2013 and during the year ended 4 April 2013, 30 per cent. and 27 per cent., respectively, by volume of residential mortgage advances that Nationwide made were to first-time buyers and 70 per cent. and 73 per cent., respectively, were to experienced buyers (although the figure includes 16 per cent. and 21 per cent., respectively, of buy to let buyers, which may include non-experienced buyers). The table below sets out Nationwide's share of the first time buyer market in each of the six month periods ended 30 September 2013 and 30 September 2012 and in each of the years ended 4 April 2013, 4 April 2012 and 4 April 2011, respectively.

	Six months ended 30 September		**Year ended 4 April**		
	2013	**2012**	**2013**	**2012**	**2011**
Number of first time buyer loans advanced by Nationwide	30,431	19,985	42,490	24,081	22,199
Nationwide's share of total number of first time buyer loans advanced (*per cent.*)[1]	21.8	18.8	19.5	11.7	11.5
Value of all loans advanced by Nationwide (*£ billion*)	4.2	2.5	5.3	2.9	2.5
Nationwide's share of total value of all loans advanced (*per cent.*)[1]	22.1	18.5	19.1	11.5	10.7

Notes:

(1) Sources: Nationwide and CML.

Consumer banking

Nationwide engages in consumer banking, which accounted for 2.3 per cent. of its total loan assets as at 30 September 2013. Almost all of Nationwide's consumer loans are made on an unsecured basis although it also offers consumer loans secured on residential property.

Nationwide offers three different forms of unsecured consumer lending:

- personal unsecured loans, which had gross outstanding balances of £1.9 billion as at 30 September 2013;
- credit card lending, which had gross outstanding balances of £1.5 billion as at 30 September 2013; and
- authorised and unauthorised overdrafts on current accounts, which had gross outstanding balances of £0.2 billion as at 30 September 2013.

There is a greater risk of loss on unsecured consumer lending than there is on residential mortgage lending because Nationwide has no security if the borrower defaults on the loan. Accordingly, unsecured consumer lending products bear higher interest rates than Nationwide's residential mortgage products. In addition, Nationwide uses an automated credit scoring system that is designed to evaluate a borrower's ability to repay the loan and imposes a maximum limit on the size of unsecured consumer loans.

Nationwide began issuing Visa-branded credit cards to its customers in 1997. Nationwide markets and processes credit card applications itself (using its credit scoring system) and an outside contractor is responsible for billing and customer service functions. Nationwide's credit card holders receive differing credit limits, depending on their credit score. Nationwide does not charge customers an annual fee for using the credit card. Nationwide's credit card asset quality remains strong and is monitored constantly both for new and existing exposures.

An arrears analysis in relation to Nationwide's consumer loans by type of loan is set out in *"Consumer banking"* under paragraph 5 "*Lending and loan portfolios*" of "*Part XVI: Selected statistical information*".

Retail savings

Nationwide is one the three largest providers of household savings in the UK. As at 4 April 2013, Nationwide offers a range of savings options from instant access variable rate savings to no access longer-term fixed rate savings.

Nationwide also offers offshore savings through its Isle of Man subsidiary, Nationwide International Limited, giving it access to another funding source. Nationwide International Limited offers demand and notice accounts in sterling, U.S. dollars and euro mainly to offshore investors. As at 30 September 2013, Nationwide International Limited had savings balances of £4.7 billion. The Board has endorsed a decision to change the status of Nationwide International Limited from a subsidiary to a branch. The Society expects this change to happen during its current financial year.

Other retail services

Nationwide's other retail services principally comprise its protection and investment business and its general insurance business.

Protection and investments

Nationwide distributes a range of investment funds through products such as individual savings accounts (or **ISAs**), open-ended investment companies (**OIECs**), unit trusts and investment bonds. ISAs offer tax efficient returns but the amount that can be invested each year on this basis is restricted. OIECs and unit trusts are forms of shared investments that allow investors to pool their money with other investors and invest in the world's markets. Investment bonds allow investors to invest in a mixture of funds in a potentially tax-efficient way by holding a range of investments in one place. Nationwide offers a range of income and growth investment funds from a panel with access to a wide range of fund managers. These funds are provided in a selection of optimised portfolios designed to match the risk profile of investors. As at 30 September 2013, Nationwide had £8.1 billion of assets under advice, up from £7.6 billion at 4 April 2013.

Nationwide also offers protection products through Legal and General and Aviva, including life insurance to pay off any outstanding mortgage debt on death or critical illness, and income protection which pays benefits when the insured is unable to work as a result of accident or sickness.

The Society is currently complying with the requirements of the new regime resulting from the Retail Distribution Review, which took effect from January 2013, and so remains able to provide financial advice to the mass market through its branch network on a fee paying basis, although this is subject to an ongoing management review.

General insurance

In conjunction with Nationwide's core business of providing residential mortgage loans and retail savings, Nationwide also develops and markets branded insurance products that are underwritten by third-party insurers, such as UK Insurance Ltd and Legal and General.

The insurance products that Nationwide markets include:

- buildings and contents insurance, offered to its residential mortgage customers and non-mortgage customers;
- travel insurance;
- motor insurance; and
- personal accident insurance.

Nationwide receives a commission and, in some cases, participates in the profits, but not the losses, from third-party underwritten insurance products that it markets. During the year ended 4 April 2013, Nationwide earned £160 million in general insurance fees. Nationwide generally markets its insurance products to new and existing customers and seeks to offer these products at competitive prices and with more comprehensive coverage than those generally offered by its main competitors.

Distribution network

Nationwide's integrated and diversified distribution network allows its customers to choose how and when to undertake their transactions with it and has enabled it to expand its business while controlling costs. The distribution network helps Nationwide 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 through the internet, telephone and mail.

Nationwide distributes its products primarily through:

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

Branches

Nationwide's goal is to utilise its branch network efficiently. The branch network continues to be a major source of its mortgage lending and retail funding. As at 30 September 2013, Nationwide had more than 775 branches in the United Kingdom, the Isle of Man and the Irish Republic. Nationwide believes that its branch network is an integral part of its distribution network and it expects to maintain a significant branch presence. Nationwide recognises that there is scope for optimisation of the network, including:

- through filling geographical gaps; and

- in the context of its programme to migrate acquired brands to the Nationwide brand, through limited reduction of overlapping branches.

E-commerce

Nationwide launched an internet banking service in 1997 and substantially upgraded the service towards the end of 2011 as part of its transformation programme. The new internet bank which, like its predecessor, allows customers to transact on their accounts and apply for a broad range of products online, has an easier navigation, modern look and a number of new features compared to the previous version. Approximately 4.4 million customers were successfully migrated to the new platform in five stages by December 2011. Between July 2012 and July 2013, the number of log-ins each month increased by 43 per cent. from 13.2 million in July 2012 to 18.8 million in July 2013. Sales of products (including current accounts, credit cards, loans, mortgages, general insurance, protection and investments) through the internet bank increased by 45 per cent. from 23,233 in July 2012 to 35,244 in July 2013.

Call centres

Nationwide's telephone call centres are open 24 hours a day and seven days a week to service customers and receive calls from potential customers that are interested in its products. In addition, Nationwide uses telemarketing to supplement its mortgage, insurance and personal loan marketing.

Intermediaries

A substantial amount of Nationwide's mortgage sales are introduced to it by third-party intermediaries. Distribution through third-party intermediaries accounted for approximately 70 per cent. and 70 per cent., respectively, of Nationwide's new residential mortgage completions in the six months ended 30 September 2013 and during the year ended 4 April 2013. Intermediaries range from large UK insurance companies to small independent mortgage advisers. Nationwide remunerates intermediaries for introducing mortgage business.

For further information on the performance of the Retail business stream in each of the six month periods ended 30 September 2013 and 30 September 2012 and in each of the three financial years ended 4 April 2013, see paragraph 9 "*Segmental analysis*" of "*Part XIV: Operating and financial review*" and for further information on Nationwide's lending and loan portfolios, see paragraph 5 "*Lending and loan portfolios*" of "*Part XVI: Selected statistical information*".

6.3 Commercial business stream

Nationwide's Commercial business stream currently manages three commercial secured lending portfolios which, as at 30 September 2013, accounted for 11.6 per cent. of its total loan assets.

To maintain a prudent balance between its asset classes, Nationwide currently has a 15 per cent. cap on commercial lending as a percentage of its total outstanding lending. Nationwide intends to maintain a low risk exposure to commercial secured lending in its commercial loan portfolio.

Nationwide's commercial loan portfolio consists of loans secured on commercial real estate (**Property Finance Loans**), loans made to UK registered social landlords which are secured on residential property (**RSL Loans**) and other secured loans that Nationwide extends to entities that raise capital for Government sanctioned projects such as schools, hospitals and roads under the UK PFI legislation (**PFI Loans**), and includes assets acquired from the Cheshire, Derbyshire and Dunfermline building societies.

The RSL and PFI portfolios are currently closed to new business. In line with its selective risk appetite, Nationwide plans to undertake measured new lending in the Property Finance market whilst also reducing its total exposure.

The following table sets out the amount and proportion of each of these types of loans on a gross basis as at 30 September 2013.

	As at 30 September 2013[1]	
	(£ billions)	*(percentage of total commercial loans)*
Commercial secured loans		
Property Finance Loans	9.5	50%
RSL Loans	8.1	42%
PFI Loans	1.5	8%
Total	**19.1**	**100%**

Property Finance Loans are secured on commercial real estate. Nationwide has limited exposure to development finance within this portfolio. As at 30 September 2013, there were 338 Property Finance Loans in the portfolio which had arrears of more than three months with an aggregate arrears balance of £77.5 million. Nationwide's Property Finance Loan portfolio has been adversely affected by recessionary market conditions in the UK and economic uncertainty and ongoing funding pressures across the banking sector. In addition, a trend towards higher regulatory capital requirements for commercial real estate lending has also significantly reduced the availability of credit for refinance within the sector.

In 2012, Nationwide established a separate Specialised Support Unit to manage out £7.1 billion of Property Finance Loans categorised by Nationwide as default, weak or satisfactory/good. This portfolio is subject to intensive management from dedicated portfolio managers and the division reports directly into Nationwide's Finance Director. Nationwide is actively managing down the portfolio in the Specialised Support Unit which, as at 30 September 2013, had been reduced to £6.1 billion.

RSL Loans are secured on residential property, but the terms of these loans differ significantly from other loans secured on real property in that Nationwide's ability to repossess the property on a default is limited by legislation. UK registered social landlords provide affordable housing supported by Government grants. This portfolio historically has carried a lower risk than Nationwide's other commercial lending activities, and there are currently no arrears of three months or more in Nationwide's RSL Loan portfolio. To date, Nationwide has not raised any loss provisions against this portfolio.

PFI Loans are secured on cash flows from Government backed contracts such as schools, hospitals and roads under the UK Private Finance Initiative legislation, and include assets acquired from Derbyshire, Cheshire and Dunfermline building societies. Nationwide has not suffered any losses on lending in this portfolio.

For further information on the performance of the Commercial business stream in each of the six month periods ended 30 September 2013 and 30 September 2012 and in each of the three financial years ended 4 April 2013, see paragraph 9 "*Segmental analysis*" of "*Part XIV: Operating and financial review*" and for further information on Nationwide's lending and loan portfolios, see paragraph 5 "*Lending and loan portfolios*" in "*Part XVI: Selected statistical information*".

6.4 Head Office Functions business stream

Nationwide's Head Office Functions business stream comprises its Treasury division together with a range of support functions such as legal services, human resources, finance, risk management, capital management, corporate affairs, property services and internal audit.

The Treasury division centrally manages Nationwide's liquid asset portfolios as well as most of its financial risk exposures and is responsible for its wholesale funding activities. These activities are described in more detail in paragraph 10.3 "*Liquidity*" of "*Part XIV: Operating and financial review*", "*Part XVII: Risk management*" and paragraph 10.6 "*Wholsesale funding*" of "*Part XIV: Operating and financial review*", respectively.

7. INVESTMENTS

Nationwide's principal investment in recent years has been its recently completed five-year transformation programme which began in its financial year ended on 4 April 2008. The transformation programme has resulted in new products and services being delivered to Nationwide's members, improved efficiency and significantly enhanced technical infrastructure. The transformation programme included:

- A new banking system, which became operational in late 2012 and which allows Nationwide to offer a suite of new personal banking products. The first two accounts, FlexDirect and FlexPlus, were launched in November 2012 and March 2013, respectively. Further accounts designed to form a full suite that will provide existing and potential customers with a range of account options to meet their banking needs are also expected to be introduced.

- A new internet bank which became operational in Autumn 2011. The new internet bank is based on a more stable and agile technology platform, is more intuitive, has improved functionality, provides an improved customer experience and facilitates a more effective use of marketing prompts to drive retail sales. In addition, the new internet bank is being used to reduce costs, largely through customers choosing to replace paper current account statements with online statements only. It is also a key enabler for Nationwide's customer focused strategy, providing an improved platform through which targeted product offerings can be made available based on a customer's identified life stage and associated product needs.

- A new mortgage sales and origination system (**MSO**) which was implemented in stages between June 2010 and June 2013 and enables and modernises mortgage sales and origination, underpinning Nationwide's mortgage strategy of remaining a leader in mortgage innovation, service and product quality. MSO provides enhanced tracking of individual mortgage applications, automatically updating customers on the key stages of their application and a new point of sales platform providing advised and non-advised sales transactions with an improved user interface resulting in a shortened mortgage interview time.

- The introduction in 2011 of a faster payments service which provided the opportunity to build a payments infrastructure giving capacity to expand payments transmission services and the ability to respond swiftly to payments regulation and strategic initiatives.

- A new data centre which opened in mid-2011 and has enhanced Nationwide's disaster recovery capacity.

The transformation programme was implemented over a five-year period at a total cost of £1.6 billion.

PART XI – DIRECTORS, EMPLOYEES AND CORPORATE GOVERNANCE

The Society is under the control of its Board of Directors. Each Director is elected by the members. The Executive Directors are the Chief Executive, the Group Finance Director, the Group Retail Director and the Chief Operating Officer. All other Directors are Non-Executive Directors. The business address of all of the Directors and officers is Nationwide House, Pipers Way, Swindon SN38 1NW, England.

Under the Society's rules, the Board must consist of not less than eight Directors. A quorum at a Board meeting is five Directors provided that those holding executive office do not form a majority of those present.

No potential conflicts of interest exist between any duties to the Society, as issuer, of the Directors and their private interests or other duties.

DIRECTORS

The following table presents information with respect to current Directors:

Name	Age	Position	Other Directorships
Geoffrey Howe*	64	Chairman	Gateway Electronic Components Limited
			Close Brothers Group plc
			Jardine Lloyd Thompson Group plc, Chairman
			The Cavendish School Charitable Trust Limited
Roger Perkin	65	Senior Independent Director	Electra Private Equity plc
			Electra Private Equity Investments plc
			Crime Reduction Initiatives
			Bower Bequest Trustee Company Limited
			Tullett Prebon plc
			Resolution Limited
			Friends Life Group plc
			Friends Life Group Holdings Limited
			Sova
Graham Beale	55	Chief Executive	
Mark Rennison	53	Group Finance Director	Arkose Funding Limited
			Confederation Mortgage Services Limited
			Exeter Trust Limited
			First Nationwide
			LBS Mortgages Limited
			Nationwide Anglia Property Services Limited

Name	Age	Position	Other Directorships
			Nationwide Investments (No.1) Limited
			Nationwide Housing Trust Limited
			Nationwide Lease Finance Limited
			Nationwide Mortgage Corporation Limited
			Nationwide Syndications Limited
			Staffordshire Leasing Limited
			NBS Fleet Services Limited
Chris Rhodes	50	Group Retail Director	Derbyshire Home Loans Limited
			E-Mex Home Funding Limited
			The Mortgage Works (UK) plc
			UCB Home Loans Corporation Limited
			at.home nationwide Limited
			Jubilee Mortgages Limited
			The Nationwide Foundation
			National Numeracy
			Visa Europe Limited
			Visa Europe Services Inc.
Tony Prestedge	43	Chief Operating Officer	Nationwide Anglia Property Services Limited
			Opportunity Now
			Dunfermline BS Nominees Limited
			Monument (Sutton) Limited
			The Derbyshire (Premises) Limited
Michael Jary	50	Non-executive Director	Duchy Originals Limited
			OC&C Peleus Advisors LLP
			OC&C Strategy Consultants International (Netherlands)
			OC&C Strategy Consultants LLP
			PCF Social Enterprises Ltd
			The Michael Jary Charitable Trust
			Fair Trade Foundation

Name	Age	Position	Other Directorships
Rita Clifton	55	Non-executive Director	The British United Provident Association
			Populus Limited
			Henley Festival Limited
			BTCV
			Rita Clifton Ltd
			The Conservation Volunteers
			TCV Trading 1 Limited
			TCV Trading 2 Limited
			Brandcap Limited
			WWF-UK
Alan Dickinson	63	Non-executive Director	Kennington Oval Limited
			Frogmore Property Company Limited
			Motability (Governor)
			Carpetright plc
			Willis Limited
			Brown Shipley & Co Limited
Mitchel Lenson	59	Non-executive Director	Eclipse Film Partners No.4 LLP
			Eclipse Film Partners No.39 LLP
			The Invicta Film Partnership No.37 LLP
			Elysian Fuels 1 LLP
			Elysian Fuels 2 LLP
			MVA Consultant Services Limited
Lynne Peacock	59	Non-executive Director	Hawkins Residents Limited
			Scottish Water
			Scottish Water Business Stream Holdings Limited
			Scottish Water Horizons Holdings Limited
			Standard Life plc
			Standard Life Charitable Trust

Note:
* Geoffrey Howe has announced his intention to retire after the Society's annual general meeting in summer 2015.

Geoffrey Howe

Group Chairman

Geoffrey Howe joined the Board in 2005 and became Chairman of the Society in July 2007. He has considerable regulatory, management and legal experience in financial services, insurance and investment markets. He is currently Chairman of Jardine Lloyd Thompson Group plc and a director of Close Brothers Group plc. Geoffrey was formerly Chairman of Railtrack Group plc, a director of Investec plc and General Counsel of Robert Fleming Holdings Limited and Managing Partner of international law firm Clifford Chance. Geoffrey intends to retire after the Society's annual general meeting in summer 2015.

Roger Perkin

Senior Independent Director

Roger Perkin joined the Nationwide Board as a Non-Executive Director in April 2010. Roger is a former partner at Ernst & Young, and has spent 40 years in the accounting profession. During his time at Ernst & Young, he worked with many blue chip clients and advised boards across the spectrum of financial services, including banking, insurance, fund management and private equity. He is also a non-executive director at Electra Private Equity Plc and Tullett Prebon plc, chairing the audit committee of both companies, Friends Life Group plc and Resolution Ltd. Additionally, he is a trustee of two charities, Chiddlingstone Castle and Crime Reduction Initiatives.

Graham Beale

Chief Executive

Graham Beale joined the Society in 1985. He is a chartered accountant by training and was appointed to the Board as Group Finance Director in April 2003. He took up his current role as Chief Executive in April 2007. Prior to his appointment to the Board, he worked extensively in the Finance function and held a number of senior, general management positions within the Society. As Chief Executive, Graham leads the strategic direction of the Group and oversees its operation through chairing the Executive Committee, which comprises the Executive and Group Directors. Graham is Chairman of the Financial Conduct Authority Practitioner Panel, a member of the Building Societies Association Council and a director of the British Bankers' Association.

Mark Rennison

Group Finance Director

Mark, a chartered accountant, is the Group Finance Director with responsibility for Finance, Treasury, Corporate Development and Specialised Support. He is a director of various Society subsidiaries. Prior to his appointment, Mark was a partner at PricewaterhouseCoopers LLP where he worked in the financial services practice with a specific focus on retail and corporate banking; whilst in professional practice, Mark has also worked extensively with group treasury operations, leasing and asset finance businesses.

Chris Rhodes

Executive Director, Group Retail

Chris joined Nationwide in April 2009 from Santander UK, where he was Director of Retail Distribution for Alliance & Leicester. Chris is the Group Retail Director and his responsibilities include Nationwide's retail product range, distribution and marketing. Chris has spent 20 years working in the financial services sector and his previous positions include Deputy Managing Director of Girobank and Retail Operations Director of Alliance & Leicester. In 2003, he was appointed Managing Director of Retail Banking for the entire Alliance & Leicester Group. In 2007, Chris became Alliance & Leicester Group Finance Director, a role he held until the merger with Santander UK in 2008.

Tony Prestedge

Chief Operating Officer, Group Operations

Tony Prestedge is Nationwide's Group Chief Operating Officer and was previously Executive Director Group Development. He previously held a number of senior executive roles at Barclays PLC, including Managing Director Home Finance and Retail Support and Operations Director. He was a member of both Woolwich plc and Barclays Retail Banking Executive Committees. Tony is accountable for the Group's operational strategy, performance and transformation and his divisional reports include Customer Services and Product Operations, Telephone Channels, Digital Development, Transformation Delivery, Technology, Payments and Property Services. Tony is a board member of Opportunity Now.

Michael Jary

Non-Executive Director

Michael Jary joined the Board in January 2009. He is a Partner of OC&C Strategy Consultants, a global strategy consulting firm with 15 offices worldwide and served as Worldwide Managing Partner of the firm from 2005 to 2011. He is an adviser to the boards of leading retail and consumer companies in Europe, the USA and Asia. He is a regular commentator on the retail industry, the co-author of a number of books including 'Retail Power Plays' and a guest lecturer at INSEAD Business School. He is also Chairman of Duchy Originals and of The Prince's Social Enterprises.

Rita Clifton

Non-Executive Director

Rita Clifton joined the Board in July 2012. Rita holds a number of non-executive roles at BUPA and Populus and is a former non-executive director of Dixons Retail plc. She sits on the Assurance and Advisory Board for BP's carbon off-setting programme and previously served as Chairman of Interbrand UK Ltd for ten years, having spent her career in advertising and market research. Rita has more than 20 years' senior management experience in a range of roles, with an expertise in demonstrating how brand is an integral part of long-term business strategy and in analysing and understanding consumer perceptions and behaviour. Her executive career has been in advertising, strategy marketing and market research; she was previously Chairman and Chief Executive at Interbrand UK Ltd, and prior to that Vice-Chairman at Saatchi & Saatchi. During her career Rita has advised, at the most senior level, some of the UK's best known organisations including British Airways, Barclays, Citigroup, Visa and the British Army.

Alan Dickinson

Non-Executive Director

Alan has spent more than 40 years in banking, originally joining the Royal Bank of Scotland in 1973, having started his career with Westminster Bank in 1968. He is an experienced retail and corporate banker and a former Executive Committee member of the RBS Group and Chief Executive of RBS UK. Alan is also a non-executive director of Carpetright plc, Willis Ltd, Brown Shipley & Co Ltd and Frogmore Property Company Limited, a governor of the charity Motability and Honorary Treasurer of Surrey County Cricket Club.

Mitchel Lenson

Non-Executive Director

Mitchel has spent nearly 30 years in the financial services industry and is a former Group Chief Information Officer at Deutsche Bank with responsibility for IT and Operations for all operating divisions of the bank, including its retail banking operations. Mitchel was a member of the executive committees for both the Corporate and Investment Bank and the Private Client and Asset Management Division. He has also served as MD, Global Head of Operations & Operations IT at UBS Warburg and as Director, Group Operations at Credit Suisse First Boston. Mitchel was a partner of Olivant & Co, an investment company providing strategic and operational expertise alongside investment capital to financial services businesses in Europe, the Middle East and Asia-Pacific and was a non-executive director of NYFIX, a NASDAQ listed company.

Lynne Peacock

Non-Executive Director

Lynne, a former Chief Executive UK of National Australia Bank's (NAB) UK business and Chief Executive of Woolwich plc, has over 25 years' senior management experience in a range of roles comprising brand development, mergers and acquisitions, change management and business transformation, including 15 years at board level. During her time at NAB, Lynne was responsible for its businesses in the UK consisting of the Clydesdale and Yorkshire Bank. She became Chief Executive of Woolwich plc in October 2000 following its takeover by the Barclays Bank Group, having previously held a number of senior management and board positions at the Woolwich Building Society, both before and after its conversion to a public listed company in 1997. Lynne is a non-executive director of Scottish Water and Standard Life plc.

Director's compensation

For the financial year ended 4 April 2013 the aggregate amount of compensation that the Society paid to all directors and executive officers as a group totalled £8.79 million.

Directors receive an annual bonus which only pays out if performance targets are met under pre-defined corporate and individual performance measures.

The Medium Term Bonus Scheme rewards the Directors for sustained performance and achieving challenging financial targets over a three year performance cycle. A new three year performance cycle starts each year. The maximum award level under the Medium Term Bonus Scheme is 120 per cent. of base salary for the Chief Executive and 81 per cent. of the base salary for the other executive directors. If performance falls below the minimum acceptable performance, then no bonus will be paid. The Remuneration Committee reviews performance against targets each financial year.

In addition Executive Directors receive other benefits including a car allowance, fuel allowance, healthcare and mortgage allowance. They also have access to shared drivers.

For further details of Director's compensation see *"Part XXI: Additional Information"*.

Management employee pension schemes

The Executive Directors receive a cash allowance in lieu of pension. Cash allowances are set as a percentage of salary in accordance with their pre-existing terms of employment. G.J. Beale and M.M. Rennison are deferred members of the Group's defined benefit plans.

G.J. Beale has opted out of the Nationwide Pension Fund, and he receives a monthly allowance in lieu of pension scheme accrual.

T.P. Prestedge has opted out of the Nationwide Group Personal Pension Arrangement and receives a monthly allowance in lieu of an employer contribution into Nationwide Group Personal Pension Arrangement.

M.M. Rennison has opted out of the Nationwide Pension Fund, and he receives a cash allowance in lieu of pension scheme accrual.

C.S. Rhodes has opted out of the Nationwide Group Personal Pension Arrangement and receives a monthly allocation in lieu of an employer contribution into the Nationwide Group Personal pension Arrangement.

Related-party transactions

Transactions with key management personnel are on the same terms and conditions applicable to other employees within the Group. For further information on related-party transactions, see note 38 to the Consolidated Annual Financial Information and paragraph 14 "*Related party transactions*" of "*Part XXI: Additional information*".

EMPLOYEES

The following table sets out the average number of persons employed by each of Nationwide and the Society during each of the six month periods ended 30 September 2013 and 30 September 2012.

	Nationwide		Society	
	2013[(1)]	**2012[(1)]**	**2013[(1)]**	**2012[(1)]**
Full time	12,959	12,803	12,921	12,766
Part time	4,155	4,333	4,147	4,328
	17,114	**17,141**	**17,068**	**17,094**
Central administration	8,731	8,736	8,731	8,736
Branches	8,337	8,358	8,337	8,358
Subsidiaries	46	47	—	—
	17,114	**17,141**	**17,068**	**17,094**

(1) Six months ended 30 September.

The following table sets out the average number of persons employed by each of Nationwide and the Society during each of the financial years ended 4 April 2013, 4 April 2012 and 4 April 2011.

	Nationwide			Society		
	2013	**2012**	**2011**	**2013**	**2012[(1)]**	**2011**
Full time	12,720	13,156	12,879	12,679	13,111	12,324
Part time	4,299	4,550	4,813	4,294	4,547	4,741
	17,019	**17,706**	**17,692**	**16,973**	**17,658**	**17,065**
Central administration	8,676	9,019	8,257	8,676	9,019	8,257
Branches	8,297	8,639	8,808	8,297	8,639	8,808
Subsidiaries	46	48	627	—	—	—
	17,019	**17,706**	**17,692**	**16,973**	**17,658**	**17,065**

(1) The 2012 analysis of employee numbers has been revised to reflect the legal employment position of staff supporting subsidiaries, but employed by the Society's central administration function.

CORPORATE GOVERNANCE

The Board considers that the Society complied with the Building Societies Association Guidance for Building Societies on the UK Corporate Governance Code during its financial year ended on 4 April 2013 and will continue to do so from Admission. This section sets out how the Society has applied the main principles and complied with the provisions of the UK Corporate Governance Code.

Matters reserved for the Board

The Board's terms of reference are available at www.nationwide.co.uk and include a number of specific matters reserved to the Board. These include:

Area of responsibility	Example matters reserved for the Board
Strategy and management	• Responsibility for overall management of Nationwide • Approval of Nationwide's long-term objectives and commercial strategy

Area of responsibility	Example matters reserved for the Board
	• Approval of Nationwide's annual operating and expenditure budgets • Review of performance in light of Nationwide's strategy, objectives, business plans and budgets • Any material extension of Nationwide's activities
Structure, capital and funding	• Changes relating to Nationwide's capital structure including capital raising activities • Major changes to Nationwide's corporate structure • Changes to Nationwide's management and control structure • Any change to the Society's mutual status • The principles of any new forms of wholesale funding and capital instruments
Financial reporting and controls	Approval of: • Preliminary announcements of interim and year-end results • Distribution policy for periodic investment returns on CCDS • Declaration of the distribution policy for periodic investment returns on CCDS • The Annual Report and Accounts • Any significant changes in accounting policies or practices • Corporate expenditure over £10 million which either does not fall within the budget approved by the Board or falls within the application for financial investment appraisal process
Internal controls and risk management	• Ensuring maintenance of a sound system of internal control and risk management • Approval of Nationwide's risk appetite, risk management framework, key regulatory documents and contingency funding plan • The Board Risk Committee will advise the Board on risk matters and highlight significant risks
Lending	Approval of: • Recommendations from the Executive Risk Committee • Treasury counterparty exposures in excess of the Executive Risk Committee's mandate

Area of responsibility	Example matters reserved for the Board
Board membership	• Changes to the structure, size and composition of the Board, following recommendations from the Nomination Committee • Ensuring adequate succession planning for the Board and senior management • Appointments to the Board • Appointment, reappointment or removal of the external auditor to be put to members for approval, following the recommendation of the Audit Committee
Remuneration	• Determining the remuneration policy for the Directors • The introduction of new incentive plans for executive or divisional directors or major changes to existing plans
Corporate governance matters	• Undertaking a formal and rigorous review annually of its own performance, that of its committees and individual Directors • Review of Nationwide's overall corporate governance arrangements

Board committees

In addition to those matters reserved to the Board, a number of committees exist to complement the Board's activities and to ensure the Society follows best practice in corporate governance matters. These committees include:

- ***The Audit Committee*** – responsible for reviewing the adequacy of the systems of financial and business control maintained by Nationwide.
- ***The Remuneration Committee*** – determines and agrees with the Board the framework for the remuneration of the Chairman, the Executive Directors and other senior executives of the Society.
- ***The Board Risk Committee*** – reviews Nationwide's risk management framework to ensure that it is appropriate to manage and mitigate current and prospective risks arising from Nationwide's business activities and future agreed strategy, and to ensure that Nationwide operates in line with its stated risk appetite.
- ***The Nomination Committee*** – responsible for reviewing the structure, size and composition of the Board, succession planning for the Board and identifying suitable candidates to fill Board vacancies.
- ***The Disclosure Committee*** – responsible on behalf of the Board for identifying and monitoring the disclosure of inside information, including ensuring that inside information is disclosed to the market in a timely, accurate and full manner in accordance with applicable rules and legislation, and for the approval of the content and form of any announcement in relation to inside information.
- ***The Board IT Strategy and Transformation Committee*** – responsible for the oversight of the strategic investment portfolio and delivery of the transformation business case, the IT strategy, architecture, delivery roadmap and architectural governance controls of the Society's IT systems and all individual programmes with an investment spend of over £50 million.
- ***The Results Approval Committee*** – reviews and executes the decisions made by the Board in relation to the interim and year-end financial statements of the Society.

Further details of the Audit Committee, the Remuneration Committee, the Board Risk Committee and the Nomination Committee are set out below.

The Audit Committee

The Audit Committee comprises four Non-Executive Directors: Roger Perkin (Chairman), Rita Clifton, Alan Dickinson and Lynne Peacock. Roger Perkin, a former partner at Ernst & Young LLP, has recent and relevant financial experience by virtue of his previous role, together with his other non-executive directorships, and holds a relevant qualification.

By invitation, Audit Committee meetings are also attended by the Chairman of the Board, the Chief Executive, the Group Finance Director, the Divisional Director, Financial Reporting & Tax, the Chief Risk Officer, the Chief Compliance Officer, the Chief Internal Auditor and the external auditors.

The Audit Committee's terms of reference include monitoring the integrity of the financial statements, including accounting policies, methods and judgments and the clarity of, disclosure; review of internal controls including internal financial controls and controls over regulatory compliance, responsibility for making recommendations to the Board on the appointment, reappointment, remuneration and removal of external auditors, maintenance of an appropriate relationship with the Society's external auditors, and review of the effectiveness of the internal audit function. In order to satisfy itself that the Society's control framework is operating effectively, the committee members receive a range of reports and other information. The Committee held six meetings during the financial year ended 4 April 2013.

The Remuneration Committee

The members of the Remuneration Committee are all independent Non-Executive Directors of the Society and include a member of the Board Risk Committee. During the financial year ended 4 April 2013, the committee members were: Lynne Peacock (Chairman of Remuneration Committee), Michael Jary and Rita Clifton.

The Remuneration Committee is responsible for determining the policy for the remuneration of the Chairman, the Executive Directors and group/divisional directors of the Society as well as any other employees who are deemed to fall within scope of the PRA Remuneration Code and, within the terms of the agreed policy, the specific remuneration packages for these roles. This includes approving the design of, and determining the performance targets for, any discretionary variable pay schemes operated by the Society for the benefit of employees within the committee's remit, and approving the total annual payments under such schemes.

The committee also oversees the remuneration policy throughout the Society, with a specific focus on the risks posed by remuneration policies and practices.

The committee's terms of reference were last reviewed and updated in April 2013. The full terms of reference are available on the Society's website. The committee met six times during the financial year ended 4 April 2013.

The Board Risk Committee

The Board Risk Committee comprises four Non-Executive Directors: Alan Dickinson (Chairman), Lynne Peacock, Roger Perkin and Mitchel Lenson. The Chairman of the Board and the Chief Executive are not members of the committee although they usually attend meetings of the committee by invitation. The Group Finance Director, the Chief Risk Officer and the Chief Compliance Officer are expected to attend committee meetings, with other Directors and senior managers invited to attend as appropriate. All members of the Board Risk Committee receive supplementary fees in recognition of their additional responsibilities. Under its terms of reference, the Board Risk Committee's responsibilities include reviewing and making recommendations to the Board about risk appetite, strategies, frameworks, policies, models and limits for risk as defined in Nationwide's Enterprise Risk Management Framework. The Board Risk Committee is also responsible for reviewing and challenging Nationwide's assessment and measurement of key risks, providing oversight and challenge to the design and execution of stress testing, and monitoring the performance of the Executive Risk Committee. The committee met six times in the financial year ended 4 April 2013 and is due to meet six times in the financial year ending 4 April 2014.

The Nomination Committee

The Nomination Committee comprises Geoffrey Howe (Chairman), Lynne Peacock, Alan Dickinson and Roger Perkin. The Nomination Committee keeps under review the structure, size and composition of the Board, and considers succession planning for Board members, group directors and divisional directors. Before any Board appointments are made, the committee evaluates the balance of skills, knowledge and experience required and identifies suitable candidates, using external advisers, as appropriate, to facilitate the search. A role specification is drawn up for all Board appointments.

During the year the committee agreed a schedule of items for consideration which included annual reviews of director development, the register of Directors' interests, Board composition and senior executive talent and succession, as well as papers on the time commitment of Non-Executive Directors and the annual Board effectiveness review process.

Annually the committee reviews its own performance and terms of reference to ensure it is operating at maximum effectiveness, and recommends any changes considered necessary to the Board.

Other Committees

In addition to the committees listed above, the Executive Committee, the Executive Risk Committee, the Asset and Liability Committee, the Lending Committee, the Group Risk and Compliance Committee, the Customer Committee and the Operational Risk Committee are other significant management committees.

The Executive Committee is Nationwide's key operational committee which oversees the day-to-day operations of its business. The role of the Executive Committee is to direct and co-ordinate the management of the business within the strategy, policies, objectives, frameworks, budget and authority approved by the Board. The committee acts as a decision making forum. The committee meets once each week, reviews all matters that are to be presented to the Board, and comprises the Society's Chief Executive, three other Executive Directors and four Group Directors.

The Executive Risk Committee, which meets monthly, is responsible for ensuring a co-ordinated management approach across all risks in operational terms and oversight of the risk committees. The committee's membership comprises the Executive and Group Directors. The risk committees are the Asset and Liability Committee (**ALCo**), the Lending Committee, the Group Risk and Compliance Committee, the Customer Committee and the Operational Risk Committee.

ALCo sets operational limits to control exposures so that they are within overall limits set by the Board. ALCo meets on a monthly basis. ALCo comprises the Chief Executive, the Group Finance Director, the Executive Director Group Retail, the Chief Risk Officer, the Divisional Director Treasury and the Divisional Director Financial Performance. For more information about the ALCo, see "*Part XVII: Risk management*".

The Lending Committee is responsible for determining Nationwide's attitude to risk, monitoring and overseeing the performance of all the various lending portfolios and products against the risk appetite set by the Board. The Committee's membership comprises the Executive Director Group Retail, the Chief Risk Officer, the Chief Compliance Officer, the Group Finance Director, the Divisional Director Mortgages & Savings, the Divisional Director Treasury, the Commercial Credit Risk Director, the Head of Secured Credit Risk, the Head of Unsecured Credit Risk and the Head of Treasury Credit Risk.

The Group Risk and Compliance Committee is responsible for second line oversight of risk management and compliance on a Group-wide basis, including the design, implementation and effectiveness of Nationwide's Enterprise Risk Management Framework. The committee comprises the Chief Risk Officer, the Chief Compliance Officer, the Group Risk Director and the Compliance Oversight Director, and is also attended by the Chief Internal Auditor and six senior officers.

The Customer Committee meets on a monthly basis and is responsible for determining and amending the Group's attitude to customer risk and monitoring and reviewing the customer risk profile of the Group. The Committee comprises the Group Director Distribution, the Executive Director Group Retail, the Chief Risk Officer, the Chief Compliance Officer, the Divisional Director Customer Experience, Divisional Director, Group Legal and Compliance, the Divisional Director Central Distribution, the Divisional Director Customer Strategy & Marketing and four senior officers.

The Operational Risk Committee, which meets monthly, is responsible for determining and amending the Group's attitude to operational risk, exercising primary responsibility for controlling operational risk and monitoring and reviewing the operational risk exposures of the Group. The Committee comprises the Chief Operating Officer, the Chief Risk Officer, the Deputy Group General Counsel and the Divisional Directors for Financial Reporting and Tax, Business Protection, Financial Performance, HR Business Partnering & Operations, Group Services, Customer Experience, and Central Distribution.

For more information about these committees, see "*Part XVII: Risk management*".

PART XII – CAPITALISATION AND INDEBTEDNESS

The following table sets out a summary of Nationwide's unaudited consolidated capitalisation and financial indebtedness prepared under IFRS using policies which are consistent with those used in the Consolidated Historical Financial Information. The financial information relating to Nationwide's indebtedness as at 30 September 2013 has been extracted without material adjustment from Nationwide's unaudited accounting records.

This table does not classify deposits as indebtedness as the taking of deposits is part of the core business of Nationwide. In addition, as a mutual organisation owned by its members, the Society does not have any shareholders, share capital or capital reserves and, accordingly, no information relating to Nationwide's capital is included in this table.

Nationwide had no indirect or contingent indebtedness at 30 September 2013. All of the indebtedness described below is non-current debt and none of the indebtedness is guaranteed by any other person.

	As at 30 September 2013
	(£ millions)
Consolidated indebtedness	
Debt securities in issue[(1)]	31,761
Of which:	
Secured	19,782
Unsecured	11,979
Total senior debt	**31,761**
Subordinated debt[(2)(3)]	
Comprising one issue maturing in 2014, one issue maturing in 2015, one issue maturing in 2018, one issue maturing in 2019, two issues maturing in 2020, one issue maturing in 2022 and one issue maturing in 2023	2,482
Total senior and subordinated debt	**34,243**
Permanent interest bearing shares[(2)(4)]	
Comprising nine issues of permanent interest bearing shares, seven of which bear interest at fixed rates and are callable (subject to relevant supervisory consent) in 2015, 2016, 2019, 2021, 2024, 2026 and 2030. Two issues bear interest at floating rates, one of which is callable (subject to relevant supervisory consent) on any interest payment date, and the other is only repayable in the event of the winding-up of the Society	638
Total indebtedness	**34,881**

Notes:

(1) Nationwide has a covered bond programme which was established in 2005, a securitisation programme which was established in 2008 and other secured lending programmes. As at 30 September 2013, the nominal values of mortgages pledged as security on debt issuances total £46,929 million, while additional mortgages of £4,578 million have been pledged as a pool as part of the Bank of England Funding for Lending Scheme.

(2) If the Society was to go into liquidation, the claims of non-member depositors and other unsubordinated creditors would rank before those of holders of UK retail member deposits, and the claims of holders of UK retail member deposits would rank before those of subordinated debt holders. The claims of holders of permanent interest bearing shares rank behind those of all other creditors, including subordinated debt holders. For further information in relation to Nationwide's outstanding subordinated debt and permanent interest bearing shares, see notes 29 and 30 to the Consolidated Annual Financial Information and note 12 to the Consolidated Interim Financial Information.

(3) For consistency with other indebtedness, accrued interest of £44 million is included.

(4) For consistency with other indebtedness, accrued interest of £7 million is included.

Since 30 September 2013 and up to 19 November 2013, Nationwide's debt securities in issue have reduced from £31,761 million to £30,872 million reflecting maturities and exchange rate effects. Subordinated debt increased from £2,482 million to £2,514 million largely reflecting changes in hedge accounting fair value adjustments since 30 September 2013. Nationwide's permanent interest bearing shares have decreased from £638 million to £626 million since 30 September 2013 largely reflecting redemptions that settled in October 2013.

PART XIII – SELECTED FINANCIAL INFORMATION

The following tables set out selected consolidated information which has been derived from the Consolidated Historical Financial Information. All data in this section should be read in conjunction with the Consolidated Historical Financial Information as well as "*Part XIV: Operating and financial review*":

INCOME STATEMENT DATA

	Six months ended 30 September		Financial year ended 4 April		
	2013	**2012**	**2013**	**2012**	**2011**
	(£ millions)				
Interest receivable and similar income	2,581	2,684	5,395	5,158	4,475
Interest expense and similar charges	(1,497)	(1,794)	(3,414)	(3,568)	(2,966)
Net interest income	**1,084**	**890**	**1,981**	**1,590**	**1,509**
Fee and commission income	236	268	558	515	492
Fee and commission expense	(61)	(54)	(113)	(96)	(92)
Income from investments	2	9	13	10	4
Other operating income	126	—	46	91	7
(Losses)/gains from derivatives and hedge accounting	(16)	(14)	(165)	35	120
Total income	**1,371**	**1,099**	**2,320**	**2,145**	**2,040**
Administrative expenses	(645)	(579)	(1,204)	(1,209)	(1,128)
Depreciation and amortisation	(133)	(97)	(216)	(180)	(150)
Impairment loss on loans and advances to customers	(253)	(258)	(589)	(390)	(359)
Impairment losses on investment securities	1	(23)	(2)	(38)	(66)
Provisions for liabilities and charges	(71)	(39)	(141)	(162)	(52)
Profit before tax	**270**	**103**	**168**	**166**	**285**
Taxation	(36)	17	10	(14)	(61)
Profit after tax	**234**	**120**	**178**	**152**	**224**

STATEMENT OF COMPREHENSIVE INCOME DATA

	Six months ended 30 September		Financial year ended 4 April		
	2013	**2012**	**2013**	**2012**	**2011**
	(*£ millions*)				
Profit after tax	234	120	178	152	224
Other comprehensive income:					
Items that will not be reclassified to the income statement					
Actuarial remeasurements of retirement benefit obligations:					
Actuarial remeasurements before tax	(175)	(150)	191	(457)	146
Taxation credit/(charge)	20	36	(53)	99	(55)
	(155)	**(114)**	**138**	**(358)**	**91**
Revaluation of property:					
Revaluation before tax	—	—	3	(8)	3
Taxation	1	—	—	4	1
	1	**—**	**3**	**(4)**	**4**
Effect of tax rate change on other items through the general reserve	(2)	(12)	(2)	(4)	(6)
Adjustments to deferred tax transferred from acquisitions	—	—	—	—	5
Items that may subsequently be reclassified to the income statement					
Available for sale investments:					
Fair value movements taken to equity	69	99	258	272	308
Amount transferred to income statement	50	(35)	(115)	(78)	12
Taxation	(30)	(21)	(39)	(63)	(100)
	89	**43**	**104**	**131**	**220**
Other comprehensive (expense)/income	**(67)**	**(83)**	**243**	**(235)**	**314**
Total comprehensive income/(expense)	**167**	**37**	**421**	**(83)**	**538**

BALANCE SHEET DATA

	As at 30 September	As at 4 April		
	2013	2013	2012	2011
		(£ millions)		
Assets				
Cash	9,737	7,886	8,126	6,130
Loans and advances to banks	2,537	2,522	2,914	4,181
Investment securities – available for sale	11,225	13,421	23,325	21,540
Derivative financial instruments	3,439	4,212	4,176	3,961
Fair value adjustment for portfolio hedged risk	366	872	1,330	1,634
Loans and advances to customers	163,863	159,587	154,169	149,417
Investments in equity shares	28	28	29	103
Intangible assets	916	894	681	529
Property, plant and equipment	880	886	945	948
Investment properties	8	8	9	9
Accrued income and expenses prepaid	172	147	129	215
Deferred tax assets	136	154	229	218
Current tax assets	—	15	—	—
Other assets	25	86	67	68
Total assets	**193,332**	**190,718**	**196,129**	**188,953**
Liabilities				
Shares	130,951	125,574	125,617	122,552
Deposits from banks	3,265	3,230	3,370	2,746
Other deposits	7,137	6,747	6,899	5,809
Due to customers	5,953	5,960	5,833	5,762
Fair value adjustment for portfolio hedged risk	77	150	278	19
Debt securities in issue	31,761	33,429	38,854	37,808
Derivative financial instruments	2,781	3,885	4,287	3,234
Other liabilities	484	251	349	376
Provisions for liabilities and charges	245	318	295	165
Accruals and deferred income	294	366	369	376
Subordinated liabilities	2,438	2,540	1,644	1,973
Subscribed capital	631	1,304	1,625	1,510
Deferred tax liabilities	28	30	28	36
Current tax liabilities	—	—	5	45
Retirement benefit obligations	540	354	517	300
Total liabilities	**186,585**	**184,138**	**189,970**	**182,711**
General reserve	6,842	6,765	6,450	6,659
Revaluation reserve	68	67	65	70
Available for sale reserve	(163)	(252)	(356)	(487)
Total reserves and liabilities	**193,332**	**190,718**	**196,129**	**188,953**

The following table sets out selected consolidated information which is unaudited but which has been derived, in the manner explained in the footnotes, from the Consolidated Historical Financial Information.

	As at/six months ended 30 September		As at/financial year ended 4 April		
	2013	**2012**	**2013**	**2012**	**2011**
	(millions, except percentages)				
Capital ratios					
Core tier 1 capital	14.2%	12.4%	12.3%	12.5%	12.5%
Tier 1 capital[(1)]	16.1%	16.2%	15.5%	16.0%	15.7%
Total capital[(1)].............	20.0%	18.3%	19.1%	18.9%	19.5%
Ratio of management expenses to mean total assets[(2)]	0.81%	0.69%	0.73%	0.72%	0.67%
Other financial data					
Profit before tax (underlying) (£ millions).............	332	130	433	267	244
Profit before tax (statutory) (£ millions).............	270	103	168	166	285
Cost income ratio (underlying)............	52.8%	59.0%	55.9%	62.2%	65.1%
Cost income ratio (statutory)...............	56.7%	61.5%	61.2%	64.8%	62.6%
Return on average total assets[(3)]...................	0.24%	0.12%	0.09%	0.08%	0.12%
Net interest margin[(4)]....	1.13%	0.91%	1.02%	0.81%	0.80%
Ratio of earnings to fixed charges[(5)]					
Including interest on retail deposits..........	1.18%	1.06%	1.05%	1.05%	1.10%
Excluding interest on retail deposits..........	1.97%	1.30%	1.30%	1.26%	1.77%

Notes:

(1) Nationwide complies with the rules which implement the EU Capital Requirements Directive (**Basel II**). Nationwide has also received Individual Capital Guidance based on IRB approaches. The Basel II Pillar 1 capital requirements are calculated using the Retail IRB approach for prime mortgages and unsecured lending; Foundation IRB approach for treasury portfolios (excluding corporates); and the Standardised approach for all other credit risk exposures.

(2) This ratio represents administrative expenses plus depreciation and amortisation as a percentage of the average of total assets at the start and end of each period.

(3) Return on average total assets represents profit on ordinary activities after tax as a percentage of average total assets at the start and end of each period.

(4) Net interest margin represents net interest income as a percentage of weighted average total assets.

(5) For this purpose, earnings consist of profit on ordinary activities before tax and fixed charges. Fixed charges consist of interest expense including or excluding interest on retail deposits, as appropriate.

For discussion of the Society's pro forma CRD IV Common Equity Tier 1 ratio on a fully loaded basis, see "*Part XV: Capital adequacy*".

PART XIV – OPERATING AND FINANCIAL REVIEW

The following discussion is based on, and should be read in conjunction with, "*Part XIII: Selected financial information*" and the Consolidated Historical Financial Information.

Nationwide prepares its financial statements in accordance with IFRS. Nationwide's financial year ends on 4 April each year. References in this section to **FY 2011**, **FY 2012**, **FY 2013** and **FY 2014** are to Nationwide's financial years ended or ending on 4 April in each of those years.

1. OVERVIEW

The Society is a building society, regulated by the FCA and the PRA. Nationwide's core business is providing personal financial services, with retail activities divided into distinct portfolios: residential mortgage loans, savings and general insurance; personal banking products; and financial planning. Nationwide's non-retail activities include specialist lending in both the commercial real estate and buy to let sectors, and as well as limited secured commercial lending and commercial offshore deposit-taking for SMEs. In addition, Nationwide maintains an investment portfolio of debt securities for its own account.

As a mutual organisation, the Society is managed for the benefit of its members, who are its retail savings and residential mortgage customers, rather than for equity shareholders. The Society returns value to its members by offering typically more competitive interest rates on savings and prime mortgages than those offered by its main competitors. As a result, Nationwide will generally have a lower net interest margin than its main competitors, which are primarily banks or other non-mutual organisations operating in the UK. As a mutual organisation, the Society pays no dividends and its net earnings are transferred to reserves and constitute Core Tier 1 capital for capital adequacy purposes.

Although Nationwide's ownership structure differs from that of a plc bank, it is committed to a business model that competes with banks and other financial services providers in terms of product range, service, credit quality and profitability. Nationwide has invested in a range of initiatives over the past five financial years in order to develop its product range and associated services and with a view to maintaining control of costs.

Nationwide's strategy of diversifying its business through the expansion of its personal banking products continues to be successful, with increases in current account holders, assets under advice, and the market share of credit cards in the six months to 30 September 2013 compared with the corresponding period of the previous year and in FY 2013 and FY 2012, in each case compared with the previous financial year. The market share of personal loans also increased in FY 2012 and remained stable in FY 2013, compared with the previous financial years.

Nationwide has experienced challenging market conditions in each of FY 2011, FY 2012, FY 2013, with the housing market stabilising at a level of transactions well below pre-crisis norms. In addition, the Bank of England base rate has remained at 0.5 per cent. for the entire period. This, combined with inflation consistently above the 2 per cent. target and slow wage growth, has contributed to slow growth in the savings market. In the six months to 30 September 2013, there have been encouraging signs that the UK economic recovery is gathering pace. GDP growth was 0.8 per cent. in the third quarter of 2013, the fastest pace for three years. Nationwide increased its underlying profit before tax by 155 per cent. in the six months ended 30 September 2013 compared to the corresponding period of the previous year and by 62 per cent. in FY 2013 and 9 per cent. in FY 2012, in each case compared with the previous financial year. In addition, Nationwide has a strong balance sheet, a Core Tier 1 capital ratio of 14.2 per cent. and a core liquidity ratio (which is Nationwide's core liquidity portfolio expressed as a percentage of adjusted share, deposit and loan liabilities) of 11.1 per cent. as at 30 September 2013, diverse funding platforms and high quality assets.

Nationwide's gross mortgage lending was £18.4 billion in FY 2012 and £21.5 billion in FY 2013, an increase of 17 per cent. in a market which grew by only 0.1 per cent. between 4 April 2012 and 4 April 2013 according to Bank of England data. This demonstrates Nationwide's commitment to meeting the needs of its borrowing members. Nationwide's gross mortgage lending in the six months to 30 September 2013 was £14.0 billion compared to £10.2 billion in the corresponding period of the previous year, an increase of 37 per cent.

Nationwide's shares, a core part of its funding requirements, grew by £3.1 billion in FY 2012 and remained broadly static in FY 2013. Nationwide's net receipts (which exclude capitalised interest) were £1.0 billion in FY 2012 and it had net outflows of £2.2 billion in FY 2013. In the six months to 30 September 2013, Nationwide's shares grew by £5.4 billion compared to net outflows of £0.5 billion in the six months to 30 September 2012. As at 30 September 2013, Nationwide was one of the three largest household savings providers in the UK (as calculated by Nationwide, based on Bank of England data). Nationwide believes this is an endorsement of its brand and product propositions.

Nationwide expects that market conditions are likely to continue to improve gradually. The Society believes that Nationwide's mutual business model has shown itself to be resilient and that Nationwide is well placed to pursue its policy of delivering long-term value to all of its members.

In light of the significant uncertainty surrounding the pace and extent of any future economic recovery, Nationwide has identified a number of options, principally relating to balance sheet, income and cost management, which would assist it in achieving its strategic goals in the event of an economic downturn that is longer and deeper than that currently anticipated by the Society.

2. IMPACT OF ECONOMIC CONDITIONS IN THE UNITED KINGDOM GENERALLY AND OUTLOOK

Nationwide does not expect any significant change in the strength of the UK economy during the second half of FY 2014, with continuing low interest rates required to support economic growth. This low interest rate environment is expected to support mortgage affordability, but represents an unfavourable environment for savers.

Against this backdrop, Nationwide expects the fundamentals of its performance to continue in the second half of FY 2014. It expects the net interest margin recovery experienced in FY 2013 and the first six months of FY 2014 to continue, albeit potentially at a slower pace, as the impact of mortgage repricing and balance growth is supported by low cost funding in both retail and wholesale markets.

UK housing market activity remained generally flat since late 2009 through the end of 2012, with transaction levels below pre-2008 crisis levels and with average house prices essentially flat. The Nationwide House Price Index recorded annual changes in house prices of 0.9 per cent. in the 12 months to April 2013, -0.9 per cent. in the 12 months to April 2012, -1.3 per cent. in the 12 months to April 2011. During the six months to 30 September 2013, the housing market has improved, with the recovery being particularly strong in London and the South East but also spreading to other areas of the UK. The recovery is supported by a range of factors, including a gradual improvement in labour market conditions, increased consumer confidence, continued low mortgage rates and improved credit availability, partly as a result of policy measures such as the Funding for Lending and the Help to Buy schemes. Nationwide expects these trends to continue for the rest of 2013 and into 2014.

The outlook for the commercial real estate market continues to be uncertain in the light of broader macroeconomic conditions. Nationwide believes that there are signs that the recovery in the economy will stabilise the outlook for the commercial real estate market and it expects its levels of provisioning for commercial loan losses to be stable for the rest of FY 2014.

Nationwide believes that it is well placed to meet the challenges it faces. Nationwide believes its balance sheet is strong, supported by its prudent approach to lending. Nationwide will seek to deliver more value to more customers and continue its progress towards achieving its ambition of being the first choice for financial services in the UK.

3. NET INTEREST INCOME

Nationwide's net interest income of £1,084 million in the six months to 30 September 2013 was £194 million higher than in the corresponding period of 2012. Nationwide's net interest income of £1,981 million in FY 2013 was £391 million higher than in FY 2012. Nationwide's net interest income of £1,590 million in FY 2012 was £81 million higher than in FY 2011. In each of the six months to 30 September 2013, FY 2013, FY 2012 and FY 2011, Nationwide's net interest income amounted to 79 per cent., 85 per cent., 74 per cent., and 74 per cent. of its total income.

The following table sets out Nationwide's net interest income and net interest margin in each of the six month periods ended 30 September 2013 and 30 September 2012 and in each of FY 2013, FY 2012 and FY 2011, respectively.

	Six months ended 30 September		**Financial year ended 4 April**		
	2013	**2012**	**2013**	**2012**	**2011**
			(£ millions)		
Net interest income	1,084	890	1,981	1,590	1,509
Weighted average total assets	192,771	195,652	193,832	195,612	189,360
			(per cent.)		
Net interest margin(1)...	**1.13**	**0.91**	**1.02**	**0.81**	**0.80**

Note:
(1) Calculated as net interest income divided by weighted average total assets and expressed as a percentage.

Nationwide's mortgage margins have remained stable throughout the period and net interest income continues to benefit from the re-pricing of existing assets onto higher prevailing market rates. The cost of retail deposits has fallen during the six months to 30 September 2013 with new business rates significantly lower. This has had the effect of lowering the overall cost of retail funding by 18 basis points relative to the position at 30 September 2012.

Nationwide's net interest margin for the six months to 30 September 2013 increased by 0.22 percentage points to 1.13 per cent. compared to its net interest margin of 0.91 per cent. in the corresponding period of 2012. Net interest income in the six months to 30 September 2013 includes:

- a net loss of £36 million arising from the sale of investment securities as part of the management of Nationwide's liquidity portfolio compared to net gains of £69 million in the 2012 period;
- a release of excess credit fair value adjustments of nil compared to a release of £48 million in the 2012 period. These gains arise in relation to the balances taken on through the acquisitions of the Derbyshire and Cheshire building societies and parts of the Dunfermline Building Society; and
- an additional £37 million (compared to £22 million in 2012 period) from an update of Nationwide's assumptions with respect to the recognition of mortgage and savings income. Effective interest rate adjustments are made to spread certain fees and costs over the expected lives of mortgages and generally result in deferred recognition of income and costs; these adjustments depend on a range of assumptions and variables which, when varied, affect the recognition of mortgage income.

Nationwide's net interest margin for FY 2013 increased by 26 per cent. to 1.02 per cent. compared to its net interest margin of 0.81 per cent. in FY 2012. Net interest income in FY 2013 includes:

- £139 million of net gains arising from the management of Nationwide's liquidity portfolio compared to net gains of £98 million in FY 2012;
- a release of excess credit fair value adjustments of £48 million in FY 2013 compared to a release of £5 million in FY 2012. These fair value adjustments were recognised in relation to the balances taken on through the acquisitions of the Derbyshire and the Cheshire building societies and parts of the Dunfermline Building Society; and
- an additional £2 million in FY 2013 (compared to £70 million in FY 2012) from an update of Nationwide's assumptions with respect to the recognition of mortgage fee income. The Group uses the effective interest

rate method to recognise income from residential and commercial mortgages which spreads certain fees and costs over the expected lives of the mortgages. To calculate the appropriate income recognition the Group makes assumptions of the expected lives and the level of income to be recognised, including the anticipated level of early redemption charges for residential mortgages. When varied these, assumptions affect the recognition profile of the mortgage fee income.

Nationwide's net interest margin in FY 2013 was supported by a combination of:

- the re-pricing of fixed rate mortgages and growth in customer balances reverting to the Society's Standard Mortgage Rate (**SMR**);
- the market price of retail funding reducing and thus reducing the cost of new retail funding to the Group. This benefits Nationwide's net interest margin as its liabilities tend to re-price more rapidly than its assets; and
- growth in the balance of consumer banking and personal loans, together with a reduction in core liquidity holdings.

Nationwide's net interest margin for FY 2012 increased by 0.01 per cent. to 0.81 per cent. compared to its net interest margin of 0.80 per cent. in FY 2011. Net interest income in FY 2012 includes:

- £98 million of net gains arising from the management of Nationwide's liquidity portfolio compared to net gains of £47 million in FY 2011;
- a release of excess credit risk fair value adjustments of £5 million in FY 2012 compared to a release of £36 million in FY 2011; and
- an additional £70 million in FY 2012 from an update of Nationwide's effective interest rate assumptions with respect to the recognition of mortgage fee income.

Nationwide's net interest margin in FY 2012 was supported by strong new business asset margins (including a significant positive impact of re-pricing deal maturities through customers reverting to the SMR. This was, however, broadly offset by an increased cost of liquidity (following final repayment in October 2011 of outstanding special liquidity scheme (**SLS**) balances) and an increased cost of funding. Although Nationwide retained its ability to access the wholesale markets throughout FY 2012, other institutions which had experienced more restricted access to that market as a result of uncertainty relating to the ongoing Eurozone crisis began to compete more aggressively for retail savings, which increased the cost of Nationwide's retail funding in FY 2012.

The Society's Base Mortgage Rate (**BMR**) commitment, which is to maintain the mortgage rate of BMR mortgages at no more than 2 per cent. above the Bank of England's base rate, represents a significant distribution of value to its members in line with Nationwide's mutual principles. Whilst margin recovery has been supported by an increase in the proportion of mortgages reverting to the Society's SMR, the distribution of value continues to be a significant factor contributing to net interest margin compression, with balances at their expected peak of £55 billion in May 2013 subject to the BMR. Nationwide estimates that its BMR commitment had a £400 million adverse impact on its net interest margin in the six months ended 30 September 2013 and an £800 million adverse impact on its net interest margin in FY 2013 (£750 million in FY 2012) by reference to standard variable rates available elsewhere in the market. This had the effect of compressing Nationwide's mortgage margins and reducing the flexibility within which those margins can be managed. However, the BMR portfolio is well seasoned, has low loan to value (**LTV**) ratios, low arrears rates and low possession rates and the low risk nature of the portfolio partly compensates for the low margin it yields. New mortgages written by Nationwide since 30 April 2009 revert to the SMR, which does not contain a contractual ceiling relative to the base rate in order to increase Nationwide's flexibility in this regard. As a result, Nationwide anticipates that the total BMR balances will decline steadily from 2013 onwards. As total BMR balances decline, the impact of the BMR commitment on Nationwide's profitability will also decline and any future increase in Bank of England base rates (which Nationwide currently does not expect until 2015) will also be likely to increase the rate at which the BMR balances decline.

4. INTEREST RATE MANAGEMENT

Because the majority of Nationwide's assets and liabilities are either floating rate instruments or are converted to floating rate instruments using derivatives, variations in market interest rates can have a direct impact on its interest income and interest expense. Fluctuations in market interest rates, however, give Nationwide the opportunity to manage its interest rate margins and, for many of the assets and liabilities, Nationwide is able to re-price the interest rate that it offers, subject to market and competitive pressures.

Interest rate risk is the risk that changes in interest rates will affect future cash flows or the fair values of financial instruments and arises from the mortgage, savings and other financial services products offered by Nationwide. The varying interest rate features and maturities of retail products and wholesale funding create exposures to interest rate risks. This is due to the imperfect matching of variable interest rates, in particular Bank of England base rate and LIBOR, and timing differences on the re-pricing of assets and liabilities. The risk is managed through the use of derivatives and other appropriate financial instruments and through product design. The derivatives used to manage this risk are not classified as effective hedges and, accordingly, are the principal source of (Losses)/gains from derivatives and hedge accounting in the income statement.

The contractual terms of its products and transactions determine Nationwide's flexibility to manage its net interest margin. In a low interest rate environment (as is currently the case), this flexibility is constrained by a natural floor, at zero per cent., for banking and savings rates, and a contractual ceiling for BMR, relative to the base rate.

The Eurozone debt crisis has had the additional effect of restricting inter-bank lending, widening the net margin between base rate and LIBOR and widening foreign exchange basis spreads. This has been a result of the concerns over the exposure of European financial institutions and the creditworthiness of certain governments.

Competition for retail funding, particularly following the expiration of Funding for Lending, may increase the margins that have to be paid to attract and retain retail deposits.

5. IMPAIRMENT LOSSES ON LOANS AND ADVANCES TO CUSTOMERS

Nationwide has recorded total impairment losses on loans and advances to customers of £253 million in the six months to 30 September 2013, £589 million in FY 2013, £390 million in FY 2012 and £359 million in FY 2011, equal to 0.15 per cent., 0.37 per cent., 0.25 per cent. and 0.24 per cent., respectively, of its total loans and advances to customers at 30 September 2013 and at 4 April in each of 2013, 2012 and 2011, respectively. These impairment losses have also adversely impacted Nationwide's profitability in each period.

Nationwide's impairment losses on its commercial lending amounted to £225 million in the six months to 30 September 2013, £493 million in FY 2013, £247 million in FY 2012 and £175 million in FY 2011, equal to 1.2 per cent., 2.5 per cent., 1.1 per cent. and 0.8 per cent., respectively, of its total commercial loans and advances at 30 September 2013 and at 4 April in each of 2013, 2012 and 2011, respectively. The commercial impairments related exclusively to Nationwide's Property Finance portfolio. The increased losses since FY 2011 reflect the continuation of negative sentiment toward commercial real estate and the uncertainty surrounding the economic outlook in the UK. Nationwide expects impairment losses on its property finance portfolio to continue to be consistent with its FY 2013 experience for a period of one to two years before improving thereafter. Against the backdrop of an improving market and satisfactory returns available on new assets, Nationwide expects to carry out measured new lending in line with its reduced risk appetite.

Nationwide's impairment losses on its residential mortgage lending (excluding consumer banking) amounted to £8 million in the six months to 30 September 2013, £16 million in FY 2013, £70 million in FY 2012 and £101 million in FY 2011, equal to 0.01 per cent., 0.01 per cent., 0.05 per cent. and 0.08 per cent. of its total residential mortgage loans and advances at 30 September 2013 and at 4 April in each of 2013, 2012 and 2011, respectively. These low levels of impairment losses reflect the high quality of the residential mortgage loan portfolio (which reflects Nationwide's prudent lending criteria) and a combination of stable house prices, a low interest rate environment and relatively robust employment trends. Notwithstanding the quality of the portfolio, there is a risk that Nationwide's impairment losses on its residential mortgage lending could increase if these conditions change, particularly once interest rates begin to rise.

Nationwide's impairment losses on its consumer banking lending amounted to £16 million in the six months to 30 September 2013, £79 million in FY 2013, £69 million in FY 2012 and £83 million in FY 2011, equal to 0.4 per cent., 2.3 per cent., 2.3 per cent. and 3.4 per cent., respectively, of its total consumer banking loans and advances at 30 September 2013 and at 4 April in each of 2013, 2012 and 2011, respectively. The provisioning assumptions have been updated in the six months to 30 September 2013 to reflect expected recoveries on delinquent balances based on recent experience. The point of full write off of the loan is also being deferred, resulting in higher reported delinquent balances without any deterioration in the quality of the book.

6. FUNDING FOR LENDING

In July 2012, Funding for Lending became operational. The scheme is designed to reduce funding costs for participating institutions so that they can make loans cheaper and more easily available. Participating institutions are currently permitted to make drawings under the scheme until the end of January 2014. Nationwide has both supported and participated in Funding for Lending although, in terms of volumes, it has had a relatively limited use of the scheme, having drawn £2.5 billion at 30 September 2013 and, subsequent to 30 September 2013, a further £2.0 billion, in line with the society's continued support of the UK housing market. The direct cost saving, relative to Nationwide's average cost of funding, amounted to:

- approximately £20 million and represented a positive impact of two basis points on its net interest margin in the six months to 30 September 2013; and;

- approximately £14 million and represented a positive impact of 0.7 basis points on its net interest margin in FY 2013.

Funding for Lending has reduced competition for funding in the retail market and, along with the other factors discussed in paragraph 3 "*Net interest income*" above, has contributed to the increase in Nationwide's net interest margin in the six months to 30 September 2013 and in FY 2013. Nationwide expects that the cessation of Funding for Lending will result in increased competition for retail funding which could increase the cost of such funding, see "*In past years the Government has provided significant support to UK financial institutions, including Funding for Lending which commenced on 1 August 2012 and to which an extension was announced on 24 April 2013. Any significant reduction or withdrawal of Funding for Lending could increase competition for other sources of funding which could adversely impact Nationwide*" in "*Part II: Risk factors*".

Funding for Lending has also reduced the need for financial institutions (including Nationwide) to obtain wholesale funding. As a result, Nationwide is continuing to maintain its investor relationships notwithstanding its currently reduced need for wholesale funding as a result of Funding for Lending and other factors with a view to ensuring that it is well positioned to increase its wholesale funding once Funding for Lending ceases.

7. CURRENT TRADING

Nationwide's net interest margin continued to strengthen in the six months ended 30 September 2013 and the Society expects this to be maintained in the second half of FY 2014.

Since 30 September 2013, repayment and disposals of Property Finance exposures amounted to £442 million in aggregate, reducing gross exposure on the portfolio to approximately £9.1 billion. The Society expects to see further significant progress in asset disposals over the remainder of FY 2014.

Overall, performance in the six months ended 30 September 2013 has been very positive, and Nationwide expects a strong performance for the rest of FY 2014.

8. RESULTS OF OPERATIONS FOR THE SIX MONTH PERIODS ENDED 30 SEPTEMBER 2013 AND 30 SEPTEMBER 2012

8.1 Introduction

Nationwide believes that its results for the six months ended 30 September 2013 indicate a strong performance, with underlying profit before tax up by 155 per cent. in the six months ended 30 September 2013 compared to the corresponding period of the previous year.

In the six months ended 30 September 2013, total income was £1.37 billion, an increase of £272 million, or 25 per cent., compared to £1.10 billion recorded in the six months ended 30 September 2012. Costs increased by 11 per cent., which was driven primarily by increased depreciation and running costs of enhancements to the Society's technology platform. Credit impairments in the six months ended 30 September 2013 at £252 million were £29 million, or 10 per cent., lower than the £281 million recorded in the six months ended 30 September 2012, principally driven by a fall in provisions for retail and other lending and in impairment losses on investment securities which were partially offset by an increase in provisions for commercial lending.

Nationwide has a balance sheet that it believes is amongst the strongest of its kind in the industry. Nationwide's asset quality is strong, with residential arrears significantly lower than industry levels. In addition, Nationwide maintains market leading capital ratios, with a Core Tier 1 capital ratio of 14.2 per cent. at 30 September 2013, high levels of liquidity and a diverse funding platform.

Nationwide presents its underlying profit before tax in order to reflect the Society's view of Nationwide's underlying performance, see "*Part V: Presentation of information*". Nationwide's underlying profit before tax equates to reported profit before tax adjusted for movements in the value of derivatives and hedge accounting, and the add back of FSCS and bank levy charges and restructuring costs.

The following tables set out Nationwide's profit before tax on a reported basis and underlying basis for each of the six months ended 30 September 2013 and 30 September 2012, respectively.

	Six months ended 30 September 2013				
	As reported	**FSCS cost and bank levy**	**Restructuring costs**	**Movement on derivatives and hedge accounting**	**Underlying profit before tax**
			(£ millions)		
Net interest income	1,084	—	—	—	1,084
Other income	303	—	—	—	303
Movement on derivatives and hedge accounting	(16)	—	—	16	—
Total income	**1,371**	**—**	**—**	**16**	**1,387**
Administration expenses	(645)	11	31	—	(603)
Depreciation and amortisation	(133)	—	4	—	(129)
					655
Impairment losses	(252)	—	—	—	(252)
Provisions for liabilities and charges	(71)	—	—	—	(71)
Profit before tax	**270**	**11**	**35**	**16**	**332**

	Six months ended 30 September 2012				
	As reported	FSCS cost and bank levy	Restructuring costs	Movement on derivatives and hedge accounting	Underlying profit before tax
			(£ millions)		
Net interest income	890	—	—	—	890
Other income	223	—	—	—	223
Movement on derivatives and hedge accounting	(14)	—	—	14	—
Total income	**1,099**	**—**	**—**	**14**	**1,113**
Administration expenses	(579)	8	11	—	(560)
Depreciation and amortisation	(97)	—	—	—	(97)
					456
Impairment losses	(281)	—	—	—	(281)
Provisions for liabilities and charges	(39)	(6)	—	—	(45)
Profit before tax	**103**	**2**	**11**	**14**	**130**

The following discussion considers Nationwide's results for the six months ended 30 September 2013 compared to its results for the six months ended 30 September 2012.

8.2 Total income

Nationwide's total income increased by £272 million, or 25 per cent., to £1,371 million in the six months ended 30 September 2013 compared to £1,099 million in the corresponding period of 2012.

The following table sets out the components of Nationwide's total income for each of the six month periods ended 30 September 2013 and 30 September 2012, respectively.

	Six months ended 30 September	
	2013	2012
	(£ millions)	
Net interest income	1,084	890
Net fees and commissions	175	214
Income from investments	2	9
Other operating income	126	—
Losses from derivatives and hedge accounting	(16)	(14)
Total income	**1,371**	**1,099**

Net interest income

Nationwide's net interest income increased by £194 million, or 22 per cent., to £1,084 million in the six months ended 30 September 2013 compared with £890 million in the corresponding period of 2012.

The following table sets out the components of Nationwide's net interest income for each of the six month periods ended 30 September 2013 and 30 September 2012, respectively.

	Six months ended 30 September	
	2013	**2012**
	(£ millions)	
Interest and similar income		
On residential mortgages	2,377	2,397
On other loans	519	566
On investment securities	200	940
On other liquid assets	22	26
Net expense on financial instruments hedging assets	(537)	(1,245)
Total interest and similar income	**2,581**	**2,684**
Interest expense and similar charges		
On shares held by individuals	(1,181)	(1,389)
On subscribed capital	(36)	(47)
On deposits and other borrowings		
Subordinated liabilities	(65)	(46)
Other	(84)	(113)
On debt securities in issue	(417)	(504)
Foreign exchange differences	(17)	(17)
Net income on financial instruments hedging liabilities	311	334
Interest on net defined benefit pension liability	(8)	(12)
Total interest expense and similar charges	**(1,497)**	**(1,794)**
Net interest income	**1,084**	**890**

Interest and similar income

Nationwide's interest and similar income decreased by £103 million, or 4 per cent., to £2,581 million in the six months ended 30 September 2013 from £2,684 million in the corresponding period of 2012. This principally reflected reduced income from investment securities and a reduction in net expense on financial instruments entered into to hedge assets. The income in the six months ended 30 September 2013 included a net loss of £36 million relating to the sale of investment securities as part of the management of the liquidity portfolio.

Interest and other income from investment securities: Interest and other income from investment securities, which comprises interest income earned on the corporate and government investment securities that Nationwide purchases for its own account to manage its liquid assets portfolios and net realised gains and losses on its sales of these instruments, fell by £740 million, or 79 per cent., to £200 million in the six months ended 30 September 2013 compared to £940 million in the corresponding period of 2012. Net of expenses on financial instruments hedging assets, there was a decrease from £440 million income in the six months ended 30 September 2012 to £6 million expense the six months ended 30 September 2013. This net decrease was due to a decrease of 41 per cent. in the average balance of securities held in both the investment and liquidity portfolios to £12,056 million in the six months ended 30 September 2013 from £20,433 million in the corresponding period of 2012 combined with a decrease in the average interest rate earned on such assets to negative 0.5 per cent. in the six months ended 30 September 2013 from 2.2 per cent. in the corresponding period of 2012. The decrease in average balances reflected a change in regulatory requirements relating to the level of liquidity that Nationwide is required to hold.

Net expense on financial instruments entered into to hedge assets: Nationwide uses derivative instruments to manage interest rate risk arising from fixed rate assets. The floating rate income and fixed rate expense on these derivatives are included as "Net expense on financial instruments hedging assets". In the six months ended 30 September 2013, Nationwide incurred a net expense of £537 million on financial instruments used to hedge its fixed rate assets compared with a net expense of £1,245 million in the corresponding period of 2012, a decrease of £708 million, or 57 per cent.

Other items of interest and similar income: Nationwide also experienced small movements in other items of interest and similar income. In particular:

- Interest on other loans, which includes interest income earned from commercial loans, credit card lending, unsecured personal loans and current account overdrafts, decreased by £47 million, or 8 per cent., to £519 million in the six months ended 30 September 2013 compared to £566 million in the corresponding period of 2012.

- Interest on Nationwide's residential mortgages decreased by £20 million, or 1 per cent., to £2,377 million in the six months ended 30 September 2013 from £2,397 million in the corresponding period of 2012. There was a 4 per cent. increase in the size of Nationwide's average residential mortgage portfolio to £147,896 million in the six months ended 30 September 2013 from £140,102 million in the corresponding period of 2012 which was more than offset by a decrease in average interest rates between the two periods from 3.42 per cent. for the six months ended 30 September 2012 to 3.21 per cent. for the six months ended 30 September 2013. Volume increases in mortgage sales have been driven by Nationwide's competitive position and support for the first time buyer market. Additionally Nationwide has retained customers on its competitively priced reversion rate products.

Interest expense and similar charges

Nationwide's interest expense and similar charges decreased by £297 million, or 17 per cent., from £1,794 million in the six months ended 30 September 2012 to £1,497 million in the six months ended 30 September 2013. This principally reflected a decrease in interest expense and similar charges on shares held by individuals, a decrease in interest expense in respect of debt securities in issue, a decrease in interest expense on deposits and other borrowings and a decrease in net income on financial instruments hedging liabilities.

Interest expense on shares held by individuals: Interest expense on shares held by individuals includes interest that Nationwide pays on UK savings and current accounts held by the Society's members. Interest on these UK retail member deposits decreased by £208 million, or 15 per cent., from £1,389 million in the six months ended 30 September 2012 to £1,181 million in the six months ended 30 September 2013. This reflects a decrease of 0.2 per cent. in the average interest rate that the Society paid to depositors from 1.1 per cent. per annum in respect of the six months ended 30 September 2012 to 0.9 per cent. per annum in respect of the six months ended 30 September 2013. This was partially offset by an increase of 2.9 per cent. in the average balance of UK retail member deposits held from £125,712 million in the six months ended 30 September 2012 to £129,395 million in the six months ended 30 September 2013.

The low rate environment that has supported mortgage holders continued to pose challenges for savers, but the Society continued its policy of diversifying its business through the expansion of its personal banking services. During the six months ended 30 September 2013, the Society opened more than 214,000 new current accounts (compared to more than 184,000 in the six months ended 30 September 2012). Approximately 54,000 customers switched their main banking relationship to the Society during the six months ended 30 September 2013. The Society's total current account base at 30 September 2013 was 5.3 million, taking its estimated market share of main standard and packaged current accounts to 6.0 per cent., compared with 5.2 per cent. at 30 September 2012.

Interest on debt securities in issue: Interest on debt securities in issue includes interest that Nationwide pays on certificates of deposit, time deposits, commercial paper and medium-term notes. In the six months ended 30 September 2013, interest expense on debt securities in issue decreased by £87 million, or 17 per cent., from £504 million in the six months ended 30 September 2012 to £417 million in the six months ended 30 September 2013. This decrease principally reflected a 13 per cent. decrease in average balances from £36,710 million in the six months ended 30 September 2012 to £31,811 million in the six months ended 30 September 2013.

Net income on financial instruments hedging liabilities: Nationwide uses derivative instruments to synthetically convert fixed rate liabilities to floating rate liabilities. The floating rate expense and fixed rate income on these derivatives are included as "Net income on financial instruments hedging liabilities". In the six months ended 30 September 2013, Nationwide earned net income of £311 million on financial instruments used to hedge Nationwide's fixed rate liabilities compared to net income of £334 million in the six months ended 30 September 2012, a decrease of £23 million, or 7 per cent. These earnings are driven by changes in market conditions during each financial year.

Interest expense on deposits and other borrowings: Interest expense on deposits and other borrowings (which includes interest that Nationwide pays on subordinated debt instruments and other deposits and borrowings, such as retail deposits by non-members, deposits from other banks and other money market deposits) decreased by £10 million, or 7 per cent., from £159 million in the six months ended 30 September 2012 to £149 million in the six months ended 30 September 2013. Interest on subordinated liabilities increased by £19 million, or 41 per cent., due to changes in the mix of subordinated debt between the two periods, including an issue of EUR1,250 million of new subordinated debt in March 2013. The interest rates on Nationwide's subordinated debt are fixed and therefore are not affected by changes in market interest rates. Interest on deposits and other (non-subordinated) borrowings decreased by £29 million, or 26 per cent., due to decreases in market interest rates.

Net fees and commissions

The following table sets out the components of Nationwide's net fee and commission income for each of the six month periods ended 30 September 2013 and 30 September 2012, respectively.

	Six months ended 30 September	
	2013	**2012**
	(£ millions)	
Fee and commission income:		
Mortgage related fees	15	17
Banking and savings fees	121	114
General insurance fees	58	74
Other insurance fees	23	20
Other fees and commissions	19	43
Total fee and commission income	**236**	**268**
Fee and commission expense:		
Banking and savings fees	(48)	(47)
Other fees and commissions	(13)	(7)
Total fee and commission expense	**(61)**	**(54)**
Net fee and commission income	**175**	**214**

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

In the six months ended 30 September 2013, net fee and commission income decreased by £39 million, or 18 per cent., to £175 million from £214 million in the corresponding period of 2012. This decrease was driven by a decrease in other fees and commissions and a decrease in general insurance fees.

Other operating income

In the six months ended 30 September 2013, Nationwide's other operating income was £126 million compared to £nil in the corresponding period of 2012. In the six months ended 30 September 2013, Nationwide recorded a £124 million net gain from the redemption of subscribed capital resulting from a liability management exercise undertaken in relation to several series of PIBS. This gain was the principal cause of the movement in other operating income. For further details of this liability management exercise, see paragraph 11.6 "*Wholesale funding*" below and paragraph 4 "*Deferred share capital of the Society*" in "*Part XXI: Additional Information*".

(Losses)/gains from derivatives and hedge accounting

Derivatives are carried at fair value with movements in fair values recorded in the income statement. Derivatives are only used to limit the extent to which Nationwide could be affected by changes in interest rates, exchange rates or other factors specified in building society legislation. Derivatives are entered into to reduce exposures to fluctuations in interest rates, exchange rates, market indices and credit risk and are not used for speculative purposes.

Nationwide currently applies fair value hedge accounting where criteria are met under IAS39. In fair value hedges, an effective hedge accounting relationship is established and the movement in the fair value of the derivative instrument is offset in full or in part by opposite movements in fair value of the underlying asset or liability being hedged. Any ineffectiveness arising from movements in fair value is generally expected to trend to zero over time. However, period to period income statement volatility can still arise in respect of these hedges either as a result of hedge ineffectiveness (where the change in fair value of the derivative was not exactly offset by the change in fair value of the hedged item) or where the hedging relationship fails a monthly effectiveness test (which, for that month, disallows recognition of the change in fair value of the hedged item).

Nationwide also enters into derivatives contracts that do not qualify for hedge accounting under IAS 39, to economically hedge against business risks such as interest rate and foreign exchange rate changes. The fair value of movements of such derivatives are included in "(Losses)/gains from derivatives and hedge accounting".

In the six months to 30 September 2013, Nationwide's losses from derivatives and hedge accounting were £16 million compared to losses of £14 million in the corresponding period of 2012.

The changes in Nationwide's (losses)/gains from derivatives and hedge accounting represent the changes during each period in the fair value of exposure-limiting derivative instruments that match risk exposures on an economic basis offset, where applicable, by changes in fair value of the underlying asset or liability attributable to the hedged risk. In the six months to 30 September 2013, Nationwide's losses from fair value hedges were £49 million compared to a gain of £8 million in the corresponding period of 2012. In the six months to 30 September 2013, Nationwide's fair value gains from other derivatives were £33 million compared to fair value losses of £22 million in the corresponding period of 2012. The two main components within these movements were:

- an accounting loss of £47 million in the six months ended 30 September 2013 (compared to a £74 million gain in the corresponding period of 2012) on fair value micro hedge relationships following sharp increases in market interest rates; and

- a £26 million gain in the six months ended 30 September 2013 (compared to a £35 million loss in the corresponding period of 2012) as a result of continued volatility in the currency markets, particularly in relation to sterling:euro basis risk which is economically hedged but where hedge accounting treatment is not available.

In the six months to 30 September 2013, Nationwide's net gain from its mortgage pipeline was £4 million, compared to £11 million in the six months to 30 September 2012.

8.3 Operating expenses and similar charges

The following table sets out the components of Nationwide's operating expenses and similar charges for each of the six month periods to 30 September 2013 and 30 September 2012, respectively.

	Six months ended 30 September	
	2013	**2012**
	(£ millions)	
Administrative expenses	(645)	(579)
Depreciation and amortisation	(133)	(97)
Impairment loss on loans and advances to customers	(253)	(258)
Reversal of impairment losses/(impairment losses) on investment securities	1	(23)
Provisions for liabilities and charges	(71)	(39)
Total operating expenses and similar charges	**(1,101)**	**(996)**

In the six months to 30 September 2013, Nationwide's total operating expenses and similar charges increased by £105 million, or 11 per cent., to £1,101 million from £996 million in the corresponding period of 2012.

The underlying cost income ratio for the six months to 30 September 2013 was 52.8 per cent. compared to 59.0 per cent. for the corresponding period of 2012. Nationwide remains committed to a medium-term target for an underlying cost income ratio of less than 50 per cent. in a normalised interest rate environment.

Changes in individual items of operating expenses and similar charges are discussed below.

Administrative expenses

The following table sets out the components of Nationwide's administrative expenses for each of the six month periods to 30 September 2013 and 30 September 2012, respectively.

	Six months ended 30 September	
	2013	**2012**
	(£ millions)	
Employee costs:		
Salaries and social security costs	(268)	(256)
Pension costs	(40)	(38)
Other administrative costs	(326)	(277)
Bank levy	(11)	(8)
Total	**(645)**	**(579)**

Nationwide's employee costs are made up of salaries, social security costs (which consist entirely of mandatory UK national insurance contributions) and pension costs. Nationwide's cost base also reflects inflationary pay awards of 2.4 per cent. and 2.5 per cent. with effect from 1 July in each of 2013 and 2012, respectively.

Salaries and social security costs in the six months to 30 September 2013 increased by £12 million, or 5 per cent., to £268 million from £256 million in the corresponding period of 2012. Within employee costs, the pension charge increased in the six months to 30 September 2013 by £2 million, or 5 per cent., to £40 million from £38 million in the six months to 30 September 2012.

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

Nationwide's administrative expenses in the six months to 30 September 2013 increased by £66 million to £645 million from £579 million in the corresponding period of 2012. Nationwide's other administrative costs increased in the six months to 30 September 2013 by £49 million, or 18 per cent., to £326 million from £277 million in the corresponding period of 2012, driven by increased restructuring costs and the cost of strategic investment, in particular the delivery of industry level regulatory programmes such as the current account switching service and the mortgage market review. Other administrative expenses for the six months to 30 September 2013 and the six months to 30 September 2012 also include £31 million and £11 million, respectively, of restructuring costs, which principally relate to the implementation of Nationwide's regional brand integration programme and to the establishment of a more flexible sourcing model for its technology and business change support programmes. The integration programme aims to migrate the customers, products and distribution channels currently branded Dunfermline, Cheshire and Derbyshire into a single branded Nationwide organisation. The total cost of this programme is expected to be £77 million, of which a transformation charge of approximately £22 million is included within the results for the period to 30 September 2013, and to deliver ongoing cost savings of approximately £30 million per year from the financial year ending 4 April 2016.

Also included in other administrative expenses for the six months to 30 September 2013 and the six months to 30 September 2012 are £20 million and £15 million, respectively, relating to the costs of administering invalid PPI claims.

Included within administrative expenses for the six months to 30 September 2013 and the six months to 30 September 2012 are charges of £11 million and £8 million, respectively, for the bank levy. The bank levy was enacted on 19 July 2011 and took effect from 1 January 2011.

Depreciation and amortisation

In the six months to 30 September 2013, Nationwide's depreciation and amortisation expense increased by £36 million, or 37 per cent., to £133 million compared to £97 million in the corresponding period of 2012. The increase principally reflected the depreciation charge on new assets delivered under Nationwide's transformation programme.

Impairment losses on loans and advances to customers

At each balance sheet date, Nationwide assesses whether, as a result of one or more events that occurred after initial recognition, there is objective evidence that a financial asset or group of assets is impaired. Evidence of impairment may include indications that a borrower or group of borrowers are experiencing significant financial difficulty or a delay or default by them in making their interest or principal payments when due.

The following table sets out Nationwide's impairment losses on loans and advances to customers for each of the six month periods to 30 September 2013 and 30 September 2012, respectively.

	Six months ended 30 September	
	2013	**2012**
	(£ millions)	
Prime residential	2	(6)
Specialist residential	(10)	(20)
Consumer banking	(16)	(38)
Commercial lending	(225)	(193)
Other lending	(4)	(1)
Total	**(253)**	**(258)**

In the six months to 30 September 2013, Nationwide's impairment losses on loans and advances to customers decreased by £5 million, or 2 per cent., to £253 million from £258 million in the corresponding period of 2012. Residential impairments (comprising both prime and specialist residential mortgages) fell by 69 per cent. in the six months to 30 September 2013 to £8 million from £26 million in the corresponding period of 2012. Nationwide applies prudent loan origination criteria to its retail lending with a heavy emphasis on managing the LTV profile of new secured lending, including restricting the volume of higher LTV lending and ensuring that such loans are only advanced to customers with a high credit score and strong affordability assessments.

The low residential impairment charge during the period reflects an observed gradual rise in house prices in the six months to 30 September 2013, a low interest rate environment and relatively stable unemployment trends, all of which are offsetting the pressure on household budgets. This is reflected in the arrears performance of the mortgage book which has remained stable over the period and continues to outperform industry averages.

The lower consumer banking impairment charge includes a reduction in provisions of £27 million reflecting updated recovery assumptions in respect of defaulted unsecured lending balances in line with recent empirical evidence.

Nationwide's commercial loan impairments increased by £32 million, or 17 per cent., to £225 million from £193 million in the corresponding period of 2012. These impairments relate only to Nationwide's Property Finance portfolio and, although the impairments are higher than the £193 million impairments recorded in the six months to 30 September 2012 they are also £75 million lower than the £300 million impairments recorded in the six months to 4 April 2013. The impairment losses are attributable to new provisions on maturing facilities together with some additional provisions on restructured cases where asset management strategies have proved unsuccessful or collateral values have been eroded further for other reasons.

The UK economy has now had three consecutive quarters of positive growth and there are some signs of increased liquidity and investor appetite for commercial real estate assets. In addition there is anecdotal evidence of recovery sentiment spreading beyond London and the South East to regional markets. Performance is, however, variable and the established trend of more resilient London and prime property markets performing more strongly than secondary properties in regional locations continues to be a dominant feature of the market.

Nationwide's strategy remains one of optimising value recovery from the Property Finance portfolio over the medium term. Nationwide expects to make substantial progress towards divestment of underperforming assets and loans which are outside current risk appetite over a three to five year timeframe; the reduction in gross balance sheet exposure over the last 18 months of 18 per cent. indicates that this is a realistic target.

Provisions for liabilities and charges

The following table sets out the components of Nationwide's income statement net charge/(release) in respect of provisions for liabilities and charges (excluding bank levies and other provisions) for each of the six month periods to 30 September 2013 and 30 September 2012, respectively.

	Six months ended 30 September	
	2013	**2012**
	(£ millions)	
FSCS	—	6
Customer redress	(71)	(45)
Total	**(71)**	**(39)**

In the six months to 30 September 2013, Nationwide's income statement net charge in respect of provisions for liabilities and charges increased by £32 million, or 82 per cent., to £71 million from £39 million in the corresponding period of 2012.

Customer redress includes potential liabilities in relation to claims related to past sales of financial products including PPI mis-selling. In light of a review of compliance with consumer credit legislation being undertaken across the industry, Nationwide is undertaking a comprehensive review of its own documentation and processes. A number of areas which require further enquiry have been identified and whilst the Society's investigations are still in a relatively early stage, the Society has recognised a charge in the six months ended 30 September 2013 of £71 million in respect of potential costs in relation to matters which may require remediation. Nationwide's findings to the date of the Prospectus have not revealed any customer detriment.

Nationwide did not make any additional provision in respect of PPI claims in the six months to 30 September 2013 as it considered that its existing provisions would be adequate. The overall PPI provision is calculated based upon the Society's estimate of complaint volumes, the proportion of cases relating to no product sold, referral rates to the Financial Ombudsman Service, uphold rates internally and with the Financial Ombudsman Service, response rates from customer contact activity relating to previous sales of PPI, average redress payments and complaint handling costs.

Nationwide's FSCS provisions are to meet expected levies payable on Nationwide's estimated share of interest and shortfall on loans received by the FSCS from HM Treasury in respect of scheme years ending on and before 31 March 2014. Nationwide pays levies to the FSCS based upon its share of protected deposits. No charge was raised for the FSCS in the six months to 30 September 2013 as the charge for the 2014/2015 scheme year will be raised in December 2013. Nationwide estimates that a further provision of between £90 million and £100 million will be made during the second half of its current financial year. Nationwide also has a potential exposure to future levies resulting from the failure of the Dunfermline Building Society. The quantification and timing of such losses have yet to be determined. For further information on the FSCS, see "*Part XIX: Supervision and regulation*".

Impairment losses on investment securities

Under IAS 39: Financial Instruments: Recognition and Measurement, impairment losses on investment securities are recorded where there is objective evidence of impairment at the balance sheet date. In the six months to 30 September 2013, Nationwide recorded a release of £1 million in respect of impairment losses on investment securities compared to impairment losses of £23 million in the corresponding period of 2012.

Nationwide's impairment losses on investment securities in the six months to 30 September 2013 comprised a £1.5 million loss on a US collateralised debt obligation which was more than offset by a £2.2 million impairment write back in connection with asset disposals during the period.

8.4 Profit before tax

Reflecting the above factors, Nationwide's profit before tax was £270 million in the six months to 30 September 2013 and £103 million in the six months to 30 September 2012. Excluding FSCS and bank levy charges, restructuring costs and losses or gains from derivatives and hedge accounting, Nationwide's underlying profit before tax was £332 million in the six months to 30 September 2013 and £130 million in the six months to 30 September 2012.

8.5 Taxation

Tax on Nationwide's profit on ordinary activities for the six months to 30 September 2013 amounted to £36 million based on Nationwide's reported profit on ordinary activities of £270 million, reflecting an effective tax rate of 13 per cent. compared with the prevailing UK corporation tax rate of 23 per cent. Nationwide's lower effective tax rate reflects:

- £13 million release of excess provisions held in respect of previously uncertain liabilities on historic transactions which were no longer required; and

- the effect through the statement of income on deferred tax of reductions in the statutory corporation tax rate (which will reduce from 23 per cent. to 21 per cent. with effect from 1 April 2014), resulting in a credit of £14 million to the income statement.

In the six months to 30 September 2012, Nationwide recorded a tax credit of £17 million. This is a combination of a tax charge on Nationwide's profit on ordinary activities for the six months to 30 September 2012 of £29 million, a prior year credit of £40 million and the effect on deferred tax of the reduction in the statutory corporation tax rate to 23 per cent.

8.6 Comprehensive income

Nationwide's statement of comprehensive income comprises its profit after tax and its other comprehensive income in each financial year. Other comprehensive income (or expense) represents changes in equity during a period other than those changes resulting from transactions with owners in their capacity as owners.

The following table sets out a summary of Nationwide's statement of comprehensive income for each of the six month periods to 30 September 2013 and 30 September 2012, respectively:

	Six months ended 30 September	
	2013	**2012**
	(£ millions)	
Profit after tax	234	120
Other comprehensive income		
Available for sale investments	89	43
Actuarial remeasurement of retirement benefit obligations	(155)	(114)
Other items	(1)	(12)
Total comprehensive income	**167**	**37**

Nationwide's total comprehensive income in the six months to 30 September 2013 was £167 million compared to total comprehensive income of £37 million in the corresponding period of 2012. In the six months to 30 September 2013, Nationwide's total comprehensive income principally reflected its £234 million after tax profit for the year, a £155 million net actuarial loss on retirement benefit obligations and a £89 million net fair-value gain on available for sale investment securities. In the six months to 30 September 2012, Nationwide's total comprehensive income principally reflected its £120 million after tax profit for the year, a £43 million net fair value gain on available for sale investments and a £114 million net actuarial loss on retirement benefit obligations.

The actuarial loss on retirement benefit obligations for the six months to 30 September 2013 primarily arises because of decreases in the values of the Fund's assets over the period, in addition the values of the liabilities increased due to a 0.20 per cent. decrease in the discount rate, partly offset by a 0.15 per cent. decrease in the inflation assumptions.

The actuarial loss on retirement benefit obligations for the six months to 30 September 2012 primarily arises because of a reduction in the discount rate used which has placed a higher value on the liabilities. Under IAS 19, the discount rate used to value Fund liabilities is based on the yield of AA-rated corporate bonds, which decreased significantly in the six months to 30 September 2012. This impact was partly offset by a reduction in the inflation and salary increase assumptions.

The fair value of each of Nationwide's available for sale investments is measured at the end of each financial year and the change between that fair value and the fair value at the end of the previous year (or the date of acquisition if more recent), other than any impairment loss, is recorded in the fair value reserve and reflected in comprehensive income. The changes in the fair value of Nationwide's available for sale investments principally reflect changes in the market valuations of debt securities.

9. RESULTS OF OPERATIONS FOR FY 2013, FY 2012 AND FY 2011

9.1 Introduction

Nationwide believes that its results for FY 2013 and FY 2012 indicate a robust performance, with underlying profit before tax up by 62 per cent. in FY 2013 compared to FY 2012 and by 9 per cent. in FY 2012 compared to FY 2011, respectively.

In FY 2013, total income was £2.32 billion, an increase of £175 million, or 8 per cent., compared to £2.15 billion recorded in FY 2012, including a net gain of £139 million relating to the sale of investment securities as part of the management of the liquidity portfolio and a £48 million release of excess credit risk fair value adjustments in relation to the balances taken on through the acquisition of the Derbyshire and Cheshire building societies and parts of the Dunfermline Building Society. Costs increased by 2 per cent., which was driven in part by continued strategic investments. Credit impairments in FY 2013 at £591 million were £163 million, or 38 per cent., higher than the £428 million recorded in FY 2012, principally driven by an increase in specific and collective provisions for commercial lending which were partially offset by a fall in provisions for retail and other lending and in impairments losses on investment securities.

In FY 2012, total income was £2.15 billion, an increase of £105 million, or 5 per cent., over the £2.04 billion recorded in FY 2011, including a £96 million gain on the acquisition of a prime mortgage portfolio and an additional £70 million resulting from a change to assumptions applicable to the recognition of residential mortgage fee income. Costs increased by 9 per cent., which was driven by continuing strategic investment in Nationwide's business, increasing regulatory costs, transactional volume growth and inflation. Credit impairments in FY 2012 were broadly stable at £428 million, with a rise in commercial provisions being largely offset by an improvement in retail and treasury provisions. Nationwide's PPI provision was increased by a further charge of £103 million in FY 2012, reflecting a significant increase in complaints across the industry.

The following tables set out Nationwide's profit before tax on a reported basis and underlying basis for each of FY 2013, FY 2012 and FY 2011, respectively.

	Financial year ended 4 April 2013				
	As reported	**FSCS cost and bank levy**	**Restructuring costs**	**Movement on derivatives and hedge accounting**	**Underlying profit before tax**
			(£ millions)		
Net interest income	1,981	—	—	—	1,981
Other income	504	—	—	—	504
Movement on derivatives and hedge accounting	(165)	—	—	165	—
Total income	**2,320**	**—**	**—**	**165**	**2,485**
Administrative expenses	(1,204)	16	16	—	(1,172)
Depreciation and amortisation	(216)	—	—	—	(216)
					1,097
Impairment losses	(591)	—	—	—	(591)
Provisions for liabilities and charges	(141)	68	—	—	(73)
Profit before tax	**168**	**84**	**16**	**165**	**433**

	Financial year ended 4 April 2012				
	As reported	**FSCS cost and bank levy**	**Restructuring costs**	**Movement on derivatives and hedge accounting**	**Underlying profit before tax**
			(£ millions)		
Net interest income	1,590	—	—	—	1,590
Other income	520	—	—	—	520
Movement on derivatives and hedge accounting	35	—	—	(35)	—
Total income	**2,145**			**(35)**	**2,110**
Administrative expenses	(1,209)	16	61	—	(1,132)
Depreciation and amortisation	(180)	—	—	—	(180)
					798
Impairment losses	(428)	—	—	—	(428)
Provisions for liabilities and charges	(162)	59	—	—	(103)
Profit before tax	**166**	**75**	**61**	**(35)**	**267**

	Financial year ended 4 April 2011				
	As reported	FSCS cost	Restructuring costs	Movement on derivatives and hedge accounting	Underlying profit before tax
			(£ millions)		
Net interest income	1,509	—	—	—	1,509
Other income	411	—	—	—	411
Movement on derivatives and hedge accounting	120	—	—	(120)	—
Total income	**2,040**			**(120)**	**1,920**
Administrative expenses	(1,128)	—	29	—	(1,099)
Depreciation and amortisation	(150)	—	—	—	(150)
					671
Impairment losses	(425)	—	—	—	(425)
Provisions for liabilities and charges	(52)	50	—	—	(2)
Profit before tax	**285**	**50**	**29**	**(120)**	**244**

The following discussion considers Nationwide's results for FY 2013 compared to its results for FY 2012 and its results for FY 2012 compared to its results for FY 2011.

9.2 Total income

Nationwide's total income increased by £175 million, or 8 per cent., to £2,320 million in FY 2013 compared to £2,145 million in FY 2012. Nationwide's total income increased by £105 million, or 5 per cent., to £2,145 million in FY 2012 compared to £2,040 million in FY 2011.

The following table sets out the components of Nationwide's total income for each of FY 2013, FY 2012 and FY 2011, respectively.

	Financial year ended 4 April		
	2013	2012	2011
		(£ millions)	
Net interest income	1,981	1,590	1,509
Net fees and commissions	445	419	400
Income from investments	13	10	4
Other operating income	46	91	7
(Losses)/gains from derivatives and hedge accounting	(165)	35	120
Total income	**2,320**	**2,145**	**2,040**

Net interest income

Nationwide's net interest income increased by £391 million, or 25 per cent., to £1,981 million in FY 2013 compared with £1,590 million in FY 2012 and increased by £81 million, or 5 per cent., to £1,590 million in FY 2012 compared with £1,509 million in FY 2011.

The following table sets out the components of Nationwide's net interest income for each of FY 2013, FY 2012 and FY 2011, respectively.

	Financial year ended 4 April		
	2013	**2012**	**2011**
		(£ millions)	
Interest and similar income			
On residential mortgages	4,851	4,924	5,004
On other loans	1,130	1,158	1,148
On investment securities	1,280	1,071	1,029
On other liquid assets	49	56	32
Net expense on financial instruments hedging assets	(1,915)	(2,051)	(2,738)
Total interest and similar income	**5,395**	**5,158**	**4,475**
Interest expense and similar charges			
On shares held by individuals	(2,741)	(2,826)	(2,511)
On subscribed capital	(89)	(96)	(96)
On deposits and other borrowings			
Subordinated liabilities	(96)	(108)	(110)
Other	(210)	(252)	(258)
On debt securities in issue	(944)	(1,093)	(915)
Foreign exchange differences	—	(12)	(3)
Net income on financial instruments hedging liabilities	689	823	952
Interest on net defined benefit pension liability	(23)	(4)	(25)
Total interest expense and similar charges	**(3,414)**	**(3,568)**	**(2,966)**
Net interest income	**1,981**	**1,590**	**1,509**

Interest and similar income

FY 2013 and FY 2012: Nationwide's interest and similar income increased by £237 million, or 5 per cent., to £5,395 million in FY 2013 from £5,158 million in FY 2012. This principally reflected increased income from investment securities and a reduction in net expense on financial instruments entered into to hedge assets. The FY 2013 income included a net gain of £139 million relating to the sale of investment securities as part of the management of the liquidity portfolio and a £48 million release of excess credit risk fair value adjustments in relation to the balances taken on through the acquisition of the Derbyshire and Cheshire building societies and parts of the Dunfermline Building Society.

Interest and other income from investment securities: Interest and other income from investment securities, which comprises interest income earned on the corporate and government investment securities that Nationwide purchases for its own account to manage its liquid assets portfolios and net realised gains and losses on its sales of these instruments, increased by £209 million, or 20 per cent., to £1,280 million in FY 2013 compared to £1,071 million in FY 2012. Net of foreign exchange differences and net of expenses on financial instruments hedging assets, there was a decrease from £406 million in FY 2012 to £302 million in FY 2013. This net decrease was due to a decrease of 25 per cent. in the average balance of securities held in both the investment and liquidity portfolios to £17,576 million in FY 2013 from £23,281 million in FY 2012 combined with a small decrease in the average interest rate earned on such assets to 1.72 per cent. in FY 2013 from 1.74 per cent. in FY 2012. The decrease in average balances reflected a change in regulatory requirements relating to the level of liquidity that Nationwide is required to hold.

Net expense on financial instruments entered into to hedge assets: Nationwide uses derivative instruments to manage interest rate risk arising from fixed rate assets. The floating rate income and fixed rate expense on these derivatives are included as "Net expense on financial instruments hedging assets". In FY 2013, Nationwide incurred a net expense of £1,915 million on financial instruments used to hedge its fixed rate assets compared with a net expense of £2,051 million in FY 2012, a decrease of £136 million, or 7 per cent.

Other items of interest and similar income: Nationwide also experienced small movements in other items of interest and similar income. In particular:

- Interest on Nationwide's residential mortgages decreased by £73 million, or 1 per cent., to £4,851 million in FY 2013 from £4,924 million in FY 2012. Although there was a 4.6 per cent. increase in the size of Nationwide's average residential mortgage portfolio to £132,332 million in FY 2013 from £126,507 million in FY 2012, this was offset by a small decrease in average interest rates between the two periods from 3.9 per cent. for FY 2012 to 3.7 per cent. for FY 2013. The increase in the size of Nationwide's average residential mortgage portfolio was driven mostly by Nationwide's strategy of expansion in the mortgage market, based on well established risk assessment and control processes for retail secured lending. This has seen expansion in a controlled way and has enabled support in both the first time buyer and buy to let markets; and

- Interest on other loans, which includes interest income earned from commercial loans, credit card lending, unsecured personal loans and current account overdrafts, decreased by £28 million, or 2 per cent., to £1,130 million in FY 2013 compared to £1,158 million in FY 2012.

FY 2012 and FY 2011: Nationwide's interest and similar income increased by £683 million, or 15 per cent., to £5,158 million in FY 2012 from £4,475 million in FY 2011. This principally reflected a reduction in net expense on financial instruments entered into to hedge assets. The FY 2012 income included a net gain of £98 million relating to the sale of investment securities, £70 million which resulted from an update to the assumptions applicable to the recognition of mortgage fee income and £32 million which resulted from updates of the early redemption charges.

Net expense on financial instruments entered into to hedge assets: In FY 2012, Nationwide incurred a net expense of £2,051 million on financial instruments used to hedge its fixed rate assets compared with a net expense of £2,738 million in FY 2011, a decrease of £687 million, or 25 per cent.

Other items of interest and similar income: Nationwide also experienced small movements in other items of interest and similar income. In particular:

- Interest on Nationwide's residential mortgages decreased by £80 million, or 2 per cent., to £4,924 million in FY 2012 from £5,004 million in FY 2011. Although there was a 0.7 per cent. increase in the size of Nationwide's average residential mortgage portfolio to £136,260 million in FY 2012 from £135,256 million in FY 2011, this was offset by a small decrease in average interest rates between the two periods from 3.70 per cent. for FY 2011 to 3.61 per cent. for FY 2012. The increase in the size of Nationwide's average residential mortgage portfolio was driven mostly by increases in lending in the specialist lending sector and the acquisition of a Bank of Ireland prime residential mortgage portfolio for £1.1 billion in December 2011;

- Interest and other income from investment securities increased by £42 million, or 4 per cent., to £1,071 million in FY 2012 compared to £1,029 million in FY 2011. Net of foreign exchange differences and net expenses on financial instruments hedging assets, there was an increase from £314 million in FY 2011 to £406 million in FY 2012. This net increase was due to an increase of 5.23 per cent. in the average balance of securities held in both the investment and liquidity portfolios to £23,281 million in FY 2012 from £22,123 million in FY 2011 combined with an increase in the average interest rate earned on such assets to 1.74 per cent. in FY 2012 compared to 1.42 per cent. in FY 2011. The increase in average interest rates is a direct result of increases in market rates between the two periods; and

- Interest on other loans increased by £10 million, or 1 per cent., to £1,158 million in FY 2012 compared to £1,148 million in FY 2011.

Interest expense and similar charges

FY 2013 and FY 2012: Nationwide's interest expense and similar charges decreased by £154 million, or 4 per cent., from £3,568 million in FY 2012 to £3,414 million in FY 2013. This principally reflected a decrease in interest expense in respect of debt securities in issue, a decrease in interest expense and similar charges on shares held by individuals, a decrease in interest expense on deposits and other borrowings and a decrease in net income on financial instruments hedging liabilities.

Interest on debt securities in issue: Interest on debt securities in issue includes interest that Nationwide pays on certificates of deposit, time deposits, commercial paper and medium-term notes. In FY 2013, interest expense on debt securities in issue decreased by £149 million, or 14 per cent., from £1,093 million in FY 2012 to £944 million.

Interest expense on shares held by individuals: Interest expense on shares held by individuals includes interest that Nationwide pays on UK savings and current accounts held by the Society's members. Interest on these UK retail member deposits decreased by £85 million, or 3 per cent., from £2,826 million in FY 2012 to £2,741 million in FY 2013. This reflects a decrease of 0.06 per cent. in the average interest rate that the Society paid to depositors from 2.25 per cent. per annum in respect of FY 2012 to 2.19 per cent. per annum in respect of FY 2013 as well as a decrease of 0.2 per cent. in the average balance of UK retail member deposits held from £125,456 million in FY 2012 to £125,264 million in FY 2013.

The low rate environment that has supported mortgage holders continued to pose challenges for savers, but the Society continued its policy of diversifying its business through the expansion of its personal banking services. During FY 2013, the Society launched two new personal current accounts and opened more than 365,000 new current accounts (compared to 359,000 in FY 2012). Approximately 123,000 customers switched their main banking relationship to the Society during FY 2013, an increase of 58 per cent. compared to FY 2012. The Society's total current account base at 4 April 2013 was 5.2 million, taking its estimated market share of main current accounts to 5.7 per cent., compared with 5.1 per cent. in FY 2012.

Interest expense on deposits and other borrowings: Interest expense on deposits and other borrowings (which includes interest that Nationwide pays on subordinated debt instruments and other deposits and borrowings, such as retail deposits by non-members, deposits from other banks and other money market deposits) decreased by £54 million, or 15 per cent., from £360 million in FY 2012 to £306 million in FY 2013. Interest on subordinated liabilities decreased by £12 million, or 11 per cent., due to changes in the mix of subordinated debt between the two years and redemptions in FY 2013. The balance of subordinated debt increased in the final month of 2013 when the Society issued EUR1,250 million of new subordinated debt, although this had little impact on the average balance or interest expense in FY 2013. The interest rates on Nationwide's subordinated debt are fixed and therefore are not affected by changes in market interest rates. Interest on deposits and other (non-subordinated) borrowings decreased by £42 million, or 17 per cent., due to decreases in market interest rates.

Net income on financial instruments hedging liabilities: Nationwide uses derivative instruments to synthetically convert fixed rate liabilities to floating rate liabilities. The floating rate expense and fixed rate income on these derivatives are included as "Net income on financial instruments hedging liabilities". In FY 2013, Nationwide earned net income of £689 million on financial instruments used to hedge Nationwide's fixed rate liabilities compared to net income of £823 million in FY 2012, a decrease of £134 million, or 16 per cent. These earnings are driven by changes in market conditions during each financial year.

FY 2012 and FY 2011: Nationwide's interest expense and similar charges increased by £602 million, or 20 per cent., from £2,966 million in FY 2011 to £3,568 million in FY 2012. This principally reflected an increase in interest expense and similar charges on shares held by individuals, an increase in interest expense in respect of debt securities in issue and a decrease in net income on financial instruments hedging liabilities.

Interest expense on shares held by individuals: Interest expense on shares held by individuals increased by £315 million, or 13 per cent., from £2,511 million in FY 2011 to £2,826 million in FY 2012. This reflects an increase of 0.20 per cent. in the average interest rate that the Society paid to depositors from 2.05 per cent.

per annum in respect of FY 2011 to 2.25 per cent. per annum in respect of FY 2012 as well as an increase of 3 per cent. in the average balance of UK retail member deposits held from £122,259 million in FY 2011 to £125,456 million in FY 2012.

The low rate environment that has supported mortgage holders continued to pose challenges for savers, but Nationwide maintained its policy of offering excellent savings products to new and existing members. Nationwide's success was evident in its ability to attract new money into Nationwide: net receipts in FY 2012 of £1.0 billion represented an increase of 67 per cent. compared to FY 2011, while total balance growth of £3.1 billion in FY 2012 was an increase of 3 per cent. in the year. Nationwide continued to make progress in its strategy of diversifying its business through the expansion of its personal banking products. In FY 2012, Nationwide opened 359,000 full facility current accounts compared with 353,000 in FY 2011. In FY 2012, a total of 78,000 customers took advantage of the Society's Account Transfer Promise by switching their main accounts to it, an increase of 90 per cent. on FY 2011. The Society's total current account base at 4 April 2012 was just under five million, taking its estimated market share of main standard accounts to around 7 per cent., compared with around 6 per cent. in FY 2011.

Interest on debt securities in issue: Interest on debt securities in issue increased in FY 2012 by £178 million, or 19 per cent., from £915 million in FY 2011 to £1,093 million.

Net income on financial instruments hedging liabilities: In FY 2012, Nationwide earned net income of £823 million on financial instruments used to hedge Nationwide's fixed rate liabilities compared to net income of £952 million in FY 2011, a decrease of £129 million, or 13.5 per cent. These earnings are driven by changes in market conditions during each financial year.

Interest on net defined benefit pension liability: Interest on net defined benefit pension liability decreased by £21 million, or 84 per cent., from £25 million in FY 2011 to £4 million in FY 2012. Under IAS 19 Employee Benefits, the interest on the net defined benefit liability is determined by multiplying the net liability at the start of the year, taking account of contribution and benefit payments, by the discount rate at the start of the year. This is recognised in interest expense and similar charges in the income statement. These amounts are calculated by an independent actuary using accepted methodology and agreed assumptions.

Net fees and commissions

The following table sets out the components of Nationwide's net fee and commission income for each of FY 2013, FY 2012 and FY 2011 respectively.

	For the year ended 4 April		
	2013	**2012**	**2011**
		(£ millions)	
Fee and commission income:			
Mortgage related fees	34	37	36
Banking and savings fees	242	235	218
General insurance fees	160	140	142
Other insurance fees	43	32	32
Other fees and commissions	79	71	64
Total fee and commission income	**558**	**515**	**492**
Fee and commission expense:			
Banking and savings fees	(95)	(88)	(86)
Other fees and commissions	(18)	(8)	(6)
Total fee and commission expense	**(113)**	**(96)**	**(92)**
Net fee and commission income	**445**	**419**	**400**

FY 2013 and FY 2012: In FY 2013, net fee and commission income increased by £26 million, or 6 per cent., to £445 million from £419 million in FY 2012. This increase was driven by increases in general insurance fees reflecting Nationwide's strategic focus to grow the range and scale of its banking products and to diversify its income stream.

FY 2012 and FY 2011: In FY 2012, net fee and commission income increased by £19 million, or 5 per cent., to £419 million from £400 million in FY 2011. This increase was driven by strong growth in current accounts.

Other operating income

In FY 2013, Nationwide's other operating income decreased by £45 million to £46 million from £91 million in FY 2012. In FY 2012, Nationwide's other operating income increased by £84 million to £91 million from £7 million in FY 2011. In FY 2013, Nationwide recorded a £43 million net gain from the redemption of subscribed capital resulting from a liability management exercise undertaken in relation to a series of PIBS. In FY 2012, Nationwide recorded a £96 million gain on the acquisition of a portfolio of UK based prime residential mortgages from the Bank of Ireland in December 2011. These gains were the principal cause of the movements in other operating income in each year.

(Losses)/gains from derivatives and hedge accounting

In FY 2013, Nationwide's losses from derivatives and hedge accounting were £165 million compared to gains of £35 million in FY 2012. In FY 2012, Nationwide's gains from derivatives and hedge accounting decreased by £85 million, or 71 per cent., to £35 million from £120 million in FY 2011.

The changes in Nationwide's (losses)/gains from derivatives and hedge accounting in each of FY 2013 and FY 2012 compared to the previous financial year represent the changes during each period in the fair value of exposure-limiting derivative instruments that match risk exposures on an economic basis offset, where applicable, by changes in fair value of the underlying asset or liability attributable to the hedged risk. In FY 2013, Nationwide's losses from fair value hedges were £113 million compared to losses of £61 million in FY 2012 and gains of £113 million in FY 2011. In FY 2013, Nationwide's fair value losses from other derivatives were £66 million compared to fair value gains of £96 million in FY 2012 and fair value losses of £3 million in FY 2011.

As a result of increased mortgage lending, Nationwide elected to fair value a portion of its mortgage commitments during FY 2013. Nationwide had previously discontinued that practice in FY 2012. In FY 2013, Nationwide's net gain from its mortgage pipeline was £14 million, compared to £nil in FY 2012 and £10 million in FY 2011.

9.3 Operating expenses and similar charges

The following table sets out the components of Nationwide's operating expenses and similar charges for each of FY 2013, FY 2012 and FY 2011, respectively.

	For the year ended 4 April		
	2013	**2012**	**2011**
		(£ millions)	
Administrative expenses	1,204	1,209	1,128
Depreciation and amortisation	216	180	150
Impairment loss on loans and advances to customers	589	390	359
Impairment losses on investment securities	2	38	66
Provisions for liabilities and charges	141	162	52
Total operating expenses and similar charges	**2,152**	**1,979**	**1,755**

In FY 2013, Nationwide's total operating expenses and similar charges increased by £173 million, or 9 per cent., to £2,152 million from £1,979 million in FY 2012. In FY 2012, Nationwide's total operating expenses and similar charges increased by £224 million, or 13 per cent., to £1,979 million from £1,755 million in FY 2011. In FY 2013, Nationwide completed a three-year cost optimisation programme which is delivering annualised gross cost savings in excess of £200 million through business restructuring, revision of pension terms and increased efficiency.

The underlying cost income ratio for FY 2013 was 55.9 per cent. compared to 62.2 per cent. for FY 2012 and 65.1 per cent. for FY 2011.

Changes in individual items of operating expenses and similar charges are discussed below.

Administrative expenses

The following table sets out the components of Nationwide's administrative expenses for each of FY 2013, FY 2012 and FY 2011, respectively.

	For the year ended 4 April		
	2013	**2012**	**2011**
		(£ millions)	
Employee costs:			
Salaries and social security costs	527	522	501
Pension costs	77	66	87
Other administrative costs	584	605	540
Bank levy	16	16	—
Total	**1,204**	**1,209**	**1,128**

FY 2013 and FY 2012: Nationwide's administrative expenses in FY 2013 decreased by £5 million to £1,204 million from £1,209 million in FY 2012. Included within administrative expenses in each of FY 2013 and FY 2012 is a £16 million charge for the bank levy. Administrative expenses for FY 2013 and FY 2012 also include £16 million and £61 million, respectively, of restructuring costs, which relate to restructuring parts of the business as part of Nationwide's ongoing cost optimisation programme and other initiatives and, in FY 2013, £35 million relating to the costs of administering invalid PPI claims, which have been expensed as incurred rather than being included in Nationwide's provision for customer redress as was the case in previous years. Nationwide's cost base also reflects inflationary pay awards of 4.4 per cent. and 2.5 per cent. with effect from 1 July in each of 2011 and 2012, respectively.

Salaries and social security costs in FY 2013 increased by £5 million, or 1 per cent., to £527 million from £522 million in FY 2012. Within employee costs, the pension charge increased in FY 2013 by £11 million, or 17 per cent., to £77 million from £66 million in FY 2012.

Nationwide's other administrative costs decreased in FY 2013 by £21 million, or 3 per cent., to £584 million from £605 million in FY 2012.

Nationwide reported bank levy costs of £16 million for each of FY 2013 and FY 2012. As a result of an announced increase in bank levy rates with effect from 1 January 2014, Nationwide expects its bank levy charge to increase by £0.5 million in FY 2014.

FY 2012 and FY 2011: Nationwide's administrative expenses in FY 2012 increased by £81 million, or by 7 per cent., to £1,209 million from £1,128 million in FY 2011.

Salaries and social security costs in FY 2012 increased by £21 million, or 4 per cent., to £522 million from £501 million in FY 2011. The increase principally reflects typical annual salary increases and merit-based salary increases to some employees. The average number of persons employed by Nationwide during FY 2012 and FY 2011 was 17,706 and 17,692, respectively, of which 13,156 and 12,879, respectively, were employed on a full time basis.

The pension charge decreased in FY 2012 by £21 million, or 24 per cent., to £66 million from £87 million in FY 2011. The decrease in pension costs is primarily due to a revised benefit structure that was put in place with effect from 1 April 2011 which reduced Nationwide's service cost. In addition, following the closure of the defined benefit arrangements to new employees in 2007, there is a continued shift in membership from defined benefit to less expensive defined contribution pension arrangements.

Nationwide's net retirement benefit liability was £517 million as at 4 April 2012 compared to £300 million at 4 April 2011. The increase in the net liability at 4 April 2012 arises because of an actuarial loss of £494 million for the year ended 4 April 2012 which was primarily caused by a reduction in the discount rate used which increased the value of the liabilities. Under IAS 19, the discount rate used to value Fund liabilities is based on the yield of AA rated corporate bonds, which have decreased significantly to 4.8 per cent. as at 4 April 2012, compared to 5.6 per cent. as at 4 April 2011. The impact of the actuarial loss was partly offset by additional deficit contributions of £241 million paid in FY 2012 compared to additional deficit contributions of £99 million paid in FY 2011.

Nationwide's other administrative costs increased in FY 2012 by £65 million, or 12 per cent., to £605 million from £540 million in FY 2011. The expenses for FY 2012 and FY 2011 include £61 million and £29 million, respectively, of restructuring costs related to the implementation of Nationwide's transformation programme, which are "one off" in nature and therefore excluded from the calculation of underlying profit/ expenses. Other factors contributing to the increase in other administrative expenses were the increase in VAT from 17.5 per cent. to 20 per cent. which took effect from 4 January 2011 and external factors such as National Insurance and regulatory costs.

The bank levy was enacted on 19 July 2011 and took effect from 1 January 2011. As a result, Nationwide reported bank levy costs for the first time in FY 2012. The £16 million charge for FY 2012 includes a charge of £3 million for the three months to 4 April 2011 which was not applied in FY 2011 as the implementing legislation had not then been substantially enacted.

Depreciation and amortisation

In FY 2013, Nationwide's depreciation and amortisation expense increased by £36 million, or 20 per cent., to £216 million compared to £180 million in FY 2012. In FY 2012, Nationwide's depreciation and amortisation expense increased by £30 million, or 20 per cent., to £180 million compared to £150 million in FY 2011. The increase in each financial year principally reflected the depreciation charge on new assets delivered under Nationwide's transformation programme.

Impairment losses on loans and advances to customers

The following table sets out Nationwide's impairment losses on loans and advances to customers for each of FY 2013, FY 2012 and FY 2011, respectively.

	For the year ended 4 April		
	2013	**2012**	**2011**
		(£ millions)	
Prime residential	(6)	13	32
Specialist residential	22	57	69
Consumer banking	79	69	83
Commercial lending	493	247	175
Other lending	1	4	—
Total impairment losses on loans and advances to customers	**589**	**390**	**359**

FY 2013 and FY 2012: In FY 2013, Nationwide's impairment losses on loans and advances to customers increased by £199 million, or 51 per cent., to £589 million from £390 million in FY 2012. Retail impairments (comprising both prime and specialist residential mortgages and unsecured consumer lending) fell by 32 per cent.

in FY 2013 to £95 million from £139 million in FY 2012. The reduction in retail impairment losses reflects the high quality of the retail loan portfolios coupled with a combination of stable house prices, a low interest rate environment and relatively robust employment trends.

Nationwide's commercial loan impairments increased by £246 million, or 100 per cent., to £493 million from £247 million in FY 2012. The increased impairment charge for the year reflects the continuation of negative sentiment toward commercial real estate and the uncertainty surrounding the economic outlook in the United Kingdom.

Nationwide's impairment losses during FY 2013 are attributable to both new provisions on cases which have become impaired during the year and additional amounts provided on already impaired cases, usually due to updated valuations, withdrawal of equity sponsor support or tenant maturities or failures.

The charge for FY 2013 includes an increase in the collective provision against unidentified impairments of £84 million reflecting the higher incidence of loss experienced during FY 2012 and a management overlay of £50 million to reflect inherent uncertainty over future cash flow estimates, particularly in relation to the timing and realisable value of property disposals.

FY 2012 and FY 2011: In FY 2012, Nationwide's impairment losses on loans and advances to customers increased by £31 million, or 9 per cent., to £390 million from £359 million in FY 2011.

Retail impairments fell by 24 per cent. in FY 2012 to £139 million from £184 million in FY 2011. This reduction reflected strong performance across all of the retail portfolios as a result of a combination of stable house prices, a low interest rate environment and relatively robust employment trends. These factors contributed to stable arrears trends on Nationwide's residential portfolios which remain ahead of the industry average based on CML data. The performance of new mortgage lending has improved significantly since 2008 as a result of tighter controls implemented at that time. The Nationwide House Price Index declined by 0.9 per cent. during FY 2012 and this stability in house prices together with Nationwide's prudent LTV lending policies over many years restricted negative equity within the residential portfolios and ensured that loss severity for those cases that are in arrears is not increasing.

Nationwide's commercial loan impairments increased in FY 2012 by £72 million, or 41 per cent., to £247 million from £175 million in FY 2011, driven by a return to recessionary conditions in the UK and widespread Eurozone concerns, both of which served to undermine investor confidence and appetite for the sector. As a result, after some recovery during FY 2011, the market experienced falls in commercial real estate valuations in FY 2012. Secondary office and retail sites and certain regional centres were particularly affected and an overall mood of uncertainty affected valuations and restricted even further the availability of both equity and debt finance to support restructurings.

The increased impairment in Nationwide's commercial loan portfolio in FY 2012 was largely attributable to new and additional provisions on existing watch list cases where valuations had been eroded or increasingly bearish market sentiment had driven a harsher assessment of consensual exit or recovery strategies with a consequent reassessment of potential future provisions.

In addition, based on a more negative outlook for commercial real estate during FY 2013, Nationwide increased its collective provision in respect of commercial lending by £16 million in FY 2012. This increase accounted for 21 per cent. of the year on year increase in Nationwide's impairment charge in respect of its commercial loan portfolio.

In relation to Nationwide's other secured lending, a net increase in the provision held for restructured loans of £3.3 million, in addition to an increase in the collective provision of £0.4 million, resulted in a charge of £3.7 million in FY 2012. Overall, with a £0.5 million charge for the student loan portfolio, there was a total impairment charge of £4.0 million reported in other secured lending. This lending is included within the Head Office Functions segment, as the portfolios were acquired by Nationwide's Treasury Division.

Provisions for liabilities and charges

The following table sets out the components of Nationwide's income statement net charge/(release) in respect of provisions for liabilities and charges (excluding bank levies) for each of FY 2013, FY 2012 and FY 2011, respectively.

	For the year ended 4 April		
	2013	2012	2011
		(£ millions)	
FSCS	68	59	50
Customer redress	73	103	16
Other provisions	—	—	(14)
Total	**141**	**162**	**52**

In FY 2013, Nationwide's income statement net charge/(release) in respect of provision for liabilities and charges decreased by £21 million, or 13 per cent., to £141 million from £162 million in FY 2012. In FY 2012, Nationwide's income statement net charge/(release) in respect of provision for liabilities and charges increased by £110 million to £162 million from £52 million in FY 2011.

In FY 2013, Nationwide's income statement net charge/(release) in respect of PPI provisions fell by £30 million, or 29 per cent., to £73 million compared to £103 million in FY 2012. This reflected a continued high volume of PPI complaints during FY 2013, a significant proportion of which relate to cases where there has been either no sale of a policy or no evidence of mis-selling. In light of this experience Nationwide reassessed the ultimate level of complaints it expected and the appropriateness of its PPI provision and, despite significant uncertainty over future volumes of claims, made a further provision of £73 million.

Nationwide's FSCS provisions are to meet expected levies payable on Nationwide's estimated share of interest and shortfall on loans received by the FSCS from HM Treasury in respect of scheme years ending on and before 31 March 2014. Nationwide pays levies to the FSCS based upon its share of protected deposits. The charge of £68 million in FY 2013 is in respect of the levy for 2012/13 and 2013/14 scheme years, including £44 million in respect of Nationwide's share of the expected shortfall for the 2013/14 scheme year.

In FY 2012, Nationwide's income statement charge in respect of PPI provisions increased by £87 million to £103 million compared to £16 million in FY 2011. This reflected an increase in Nationwide's PPI provision following significant developments since the initial PPI provision was estimated. The Financial Services Authority released its policy statement PS10/12 in August 2010 which amended the 'Disputes Resolution: Complaints' section of the FSA's Handbook (now the FCA's Handbook) and set out new guidance and rules for handling complaints, including complaints of PPI misselling. As a result, in line with the wider industry, Nationwide experienced a significant increase in complaints during the second half of FY 2012, driven by media focus and claims' management company activity. This resulted in a re-assessment of the volume of complaints that Nationwide ultimately expects to receive, including significant levels of complaints where a customer has not been sold a product by Nationwide.

Impairment losses on investment securities

Under IAS 39: Financial Instruments: Recognition and Measurement, impairment losses on investment securities are recorded where there is objective evidence of impairment at the balance sheet date. In FY 2013, Nationwide recorded £2 million impairment losses on investment securities compared to £38 million in FY 2012 and £66 million in FY 2011.

Nationwide's impairment losses on investment securities in FY 2013 comprised £23 million in respect of a UK commercial mortgage backed security (**CMBS**) offset by a write back of £19 million following the sale of US residential mortgage backed securities (**RMBS**) and a write back of £2 million on a previously impaired position.

Nationwide's impairment losses on investment securities in FY 2012 comprised £17 million in respect of US RMBS, £9 million in respect of UK CMBS exposures, £5 million in respect of Portuguese bank subordinated debt and £7 million in respect of Nationwide's private equity portfolio.

Nationwide's impairment losses on investment securities in FY 2011 comprised £22 million in respect of US RMBS exposures, £15 million in respect of UK CMBS exposures, £18 million in respect of the restructuring of subordinated debt of Irish banks (acquired through the restructuring of a Structured Investment Vehicle (**SIV**)) and £11 million in respect of notes of a restructured SIV.

9.4 Profit before tax

Reflecting the above factors, Nationwide's profit before tax was £168 million in FY 2013, £166 million in FY 2012 and £285 million in FY 2011. Excluding FSCS and bank levy charges, restructuring costs and losses or gains from derivatives and hedge accounting, Nationwide's underlying profit before tax was £433 million in FY 2013, £267 million in FY 2012 and £244 million in FY 2011.

9.5 Taxes

Nationwide incurred a credit of £10 million on its profit on ordinary activities for FY 2013, as its tax charge was more than offset in full by prior year adjustments and the impact of the change in the corporation tax rate on deferred tax.

Tax on Nationwide's profit on ordinary activities for FY 2012 amounted to £14 million based on Nationwide's reported profit on ordinary activities of £166 million, reflecting an effective tax rate of 8.4 per cent. compared with the prevailing UK corporation tax rate of 26 per cent.

Tax on Nationwide's profit on ordinary activities for FY 2011 amounted to £61 million based on Nationwide's reported profit on ordinary activities of £285 million, reflecting an effective tax rate of 21.4 per cent. compared with the prevailing UK corporation tax rate of 28 per cent.

Nationwide's lower effective tax rates in each financial year reflect:

- In FY 2013, adjustments of £51 million, including a £44 million release in respect of prior year adjustments and a £7 million credit to the income statement following the restatement of deferred tax balances as a result of announced reduction in corporation tax from 24 per cent. to 23 per cent. These factors more than offset a charge on profits for the year of £41 million based on Nationwide's reported profit on ordinary activities before tax of £168 million;

- In FY 2012, adjustments with respect to prior periods, principally a release of £21 million of provisions held in respect of previously uncertain liabilities on historic transactions which were no longer required;

- In FY 2012 and FY 2011, the effect on deferred tax of reductions in the statutory corporation tax rate (which reduced from 28 per cent. to 26 per cent. with effect from FY 2012 and to 24 per cent. with effect from FY 2013); and

- In FY 2011, the utilisation of previously unrecognised losses and lower overseas tax rates.

These positive factors were partially offset in FY 2013 and FY 2012 by the charge for the bank levy which is not an allowable deduction for corporation tax and, in FY 2011, principally by the effects of other non-deductible expenditure.

9.6 Comprehensive income

The following table sets out a summary of Nationwide's statement of comprehensive income for each of FY 2013, FY 2012 and FY 2011, respectively:

	For the year ended 4 April		
	2013	2012	2011
		(£ millions)	
Profit after tax	178	152	224
Other comprehensive income			
Actuarial remeasurements of retirement benefit obligations	138	(358)	91
Available for sale investments	104	131	220
Other items	1	(8)	3
Total comprehensive income	**421**	**(83)**	**538**

Nationwide's total comprehensive income in FY 2013 was £421 million compared to a total comprehensive loss of £83 million in FY 2012 and total comprehensive income of £538 million in FY 2011. In FY 2013, Nationwide's total comprehensive income principally reflected its £178 million after tax profit for the year, a £138 million net actuarial gain on retirement benefit obligations and a £104 million net fair value gain on available for sale investment securities. In FY 2012, Nationwide's total comprehensive loss principally reflected a £358 million net actuarial loss on retirement benefit obligations which was partially offset by its £152 million after tax profit for the year and its £131 million net fair value gain on available for sale investments.

The actuarial gain on retirement benefit obligations for FY 2013 primarily arose because of increases in both the values of the Fund's equities and bonds over the year, partly offset by the impact of a 0.1 per cent. increase in the inflation assumptions which reduced the actuarial gain. The actuarial loss on retirement benefit obligations for FY 2012 primarily arose because of a reduction in the discount rate used which has placed a higher value on the liabilities. Under IAS 19, the discount rate used to value Fund liabilities is based on the yield of AA-rated corporate bonds, which decreased significantly in FY 2012. This impact was partly offset by a reduction in the inflation and salary increase assumptions.

The changes in the fair value of Nationwide's available for sale investments principally reflect changes in the market valuations of debt securities.

10. SEGMENTAL ANALYSIS

For management reporting purposes, Nationwide is organised into the following three reporting segments determined according to similar economic characteristics and customer base:

- ***Retail*** – which includes prime residential lending, specialist residential lending, consumer banking, retail funding (savings products), commercial deposits which are managed by the retail business, insurance and investments. The distribution channels supporting these products are also included in the Retail segment.
- ***Commercial*** – which comprises Nationwide's commercial lending business.
- ***Head Office Functions*** – which comprises Treasury operational and income generation activities, head office and central support functions, commercial deposits received and managed by the Treasury division and the result arising from the transfer pricing methodology relating to the funding of the other two segments. Head office and central support functions include executive management, corporate secretariat, legal services, human resources, strategy and planning, finance, risk management, capital management, corporate affairs, property services and internal audit.

Funds transfer pricing is the mechanism by which Nationwide recognises an internal cost of funds and allocates this cost between different product groups and business segments to derive individual product margin and net interest receivable. Nationwide's methodology is to determine a single cost of funds, representing the weighted average cost of retail and wholesale funding, which is allocated across Nationwide and updated on a quarterly basis, to reflect the opportunity cost of funding and the relative performance of the different business segments, based on current market cost of funds. The only exception to this approach is that the transfer price charged to long-term social housing and private finance initiative lending within the Commercial segment is set to reflect the lower average historic cost of wholesale funding which was available when the loans were originated. This reflects the nature of this lending which did not envisage the current marginal cost of borrowing and is assessed based on the movements in Nationwide's wholesale cost of funding. The Retail and Commercial segments are also charged for the benefit of free capital as part of the funds transfer pricing mechanism, based upon regulatory capital metrics. All other assets in the Commercial segment will continue to be charged the weighted average current cost of retail and wholesale funds in line with other assets.

The majority of Nationwide's revenue is derived from interest. Net interest income is used to assess the performance of each business segment. Accordingly, interest income is presented net of interest expense. The presentation shown below, whereby net interest income is adjusted for revenue from other business segments, reflects how management reviews income to assess performance and allocate resources.

The following tables set out information relating to Nationwide's operating segments for each of the six month periods to 30 September 2013 and 30 September 2012 and for each of FY 2013, FY 2012 and FY 2011, respectively.

	Six months ended 30 September 2013			
	Retail	**Commercial**	**Head office functions**	**Total**
	(£ millions)			
Net interest income/(expense) from external customers	1,315	348	(579)	1,084
(Charge)/revenue from other segments	(115)	(287)	402	—
Net interest income	**1,200**	**61**	**(177)**	**1,084**
Other income[1]	170	9	124	303
Total revenue	**1,370**	**70**	**(53)**	**1,387**
Expenses[2]	(683)	(27)	(22)	(732)
Impairment and other provisions[3]	(95)	(225)	(3)	(323)
Underlying profit/(loss) before tax	**592**	**(182)**	**(78)**	**332**
FSCS levies				—
Restructuring costs			(35)	(35)
Bank levy			(11)	(11)
Losses from derivatives and hedge accounting			(16)	(16)
Profit/(loss) before tax	**592**	**(182)**	**(140)**	**270**
Taxation				(36)
Profit after tax				**234**
Total assets[4]	**144,687**	**18,987**	**29,658**	**193,332**
Total liabilities	**136,406**	**817**	**49,362**	**186,585**

	Six months ended 30 September 2012			
	Retail	Commercial	Head office functions	Total
	(£ millions)			
Net interest income/(expense) from external customers	1,077	408	(595)	890
(Charge)/revenue from other segments	(304)	(382)	686	—
Net interest income	**773**	**26**	**91**	**890**
Other income(1)	205	10	8	223
Total revenue	**978**	**36**	**99**	**1,113**
Expenses(2)	(618)	(24)	(15)	(657)
Impairment and other provisions(3)	(109)	(193)	(24)	(326)
Underlying profit/(loss) before tax	**251**	**(181)**	**60**	**130**
FSCS levies	6			6
Restructuring costs	(7)		(4)	(11)
Bank levy			(8)	(8)
Losses from derivatives and hedge accounting			(14)	(14)
Profit/(loss) before tax	**250**	**(181)**	**34**	**103**
Taxation				17
Profit after tax				**120**
Total assets(4)	**135,118**	**21,594**	**36,563**	**193,275**
Total liabilities	**130,818**	**207**	**56,054**	**187,079**

	For the year ended 4 April 2013			
	Retail	Commercial	Head office functions	Total
	(£ millions)			
Net interest income/(expense) from external customers	2,284	794	(1,097)	1,981
(Charge)/revenue from other segments	(343)	(720)	1,063	—
Net interest income	**1,941**	**74**	**(34)**	**1,981**
Other income(1)	433	18	53	504
Total revenue	**2,374**	**92**	**19**	**2,485**
Expenses(2)	(1,309)	(46)	(33)	(1,388)
Impairment and other provisions(3)	(166)	(493)	(5)	(664)
Underlying profit/(loss) before tax	**899**	**(447)**	**(19)**	**433**
FSCS levies	(68)	—	—	(68)
Restructuring costs	(3)	—	(13)	(16)
Bank levy	—	—	(16)	(16)
Losses from derivatives and hedge accounting	—	—	(165)	(165)
Profit/(loss) before tax	**828**	**(447)**	**(213)**	**168**
Taxation				10
Profit after tax				**178**
Total assets(4)	**138,810**	**20,371**	**31,537**	**190,718**
Total liabilities	**131,184**	**526**	**52,428**	**184,138**

	For the year ended 4 April 2012			
	Retail	Commercial	Head office functions	Total
	(£ millions)			
Net interest income/(expense) from external customers	2,198	866	(1,474)	1,590
(Charge)/revenue from other segments	(769)	(813)	1,582	—
Net interest income	**1,429**	**53**	**108**	**1,590**
Gain on acquisition of mortgage portfolio	96	—	—	96
Other income(1)	406	18	—	424
Total revenue	**1,931**	**71**	**108**	**2,110**
Expenses(2)	(1,201)	(38)	(73)	(1,312)
Impairment and other provisions(3)	(242)	(247)	(42)	(531)
Underlying profit/(loss) before tax	**488**	**(214)**	**(7)**	**267**
FSCS levies	(59)	—	—	(59)
Restructuring costs	(1)	—	(60)	(61)
Bank levy	—	—	(16)	(16)
Gains from derivatives and hedge accounting	—	—	35	35
Profit/(loss) before tax	**428**	**(214)**	**(48)**	**166**
Taxation				(14)
Profit after tax				**152**
Total assets(4)	**131,549**	**22,157**	**42,423**	**196,129**
Total liabilities	**131,344**	**92**	**58,534**	**189,970**

	For the year ended 4 April 2011			
	Retail	Commercial	Head office functions	Total
	(£ millions)			
Net interest income/(expense) from external customers	2,649	995	(2,135)	1,509
(Charge)/revenue from other segments	(1,310)	(954)	2,264	—
Net interest income	**1,339**	**41**	**129**	**1,509**
Other income(1)	381	20	10	411
Total revenue	**1,720**	**61**	**139**	**1,920**
Expenses(2)	(1,109)	(32)	(108)	(1,249)
Impairment and other provisions(3)	(186)	(175)	(66)	(427)
Underlying profit/(loss) before tax	**425**	**(146)**	**(35)**	**244**
FSCS levies	(50)	—	—	(50)
Resructuring costs	(4)	—	(25)	(29)
Gains from derivatives and hedge accounting	—	—	120	120
Profit/(loss) before tax	**371**	**(146)**	**60**	**285**
Taxation				(61)
Profit after tax				**224**
Total assets(4)	**126,829**	**22,107**	**40,017**	**188,953**
Total liabilities	**128,647**	**—**	**54,064**	**182,711**

Notes:
(1) Other income excludes gains from derivatives and hedge accounting which are shown separately.
(2) Expenses exclude restructuring costs and bank levy which are shown separately.

(3) Impairment and other provisions includes impairment losses on loans and advances to customers, provisions for liabilities and charges (excluding FSCS) and impairment losses on investment securities.

(4) Retail assets include goodwill arising on the acquisitions of The Mortgage Works (UK) plc and the Derbyshire Building Society.

10.1 Retail Segment

Total revenue

Six month periods to 30 September 2013 and 30 September 2012

Total revenue in the Retail segment was £1,370 million in the six months to 30 September 2013, £392 million, or 40 per cent., higher than the £978 million recorded in the corresponding period of 2012. The increase in the Retail segment's total revenue in the six months to 30 September 2013 principally reflects a £427 million increase in net interest income (which is discussed below).

FY 2013, FY 2012 and FY 2011

Total revenue in the Retail segment was £2,374 million in FY 2013, £443 million, or 23 per cent., higher than the £1,931 million recorded in FY 2012 which, in turn, was £211 million, or 12 per cent., higher than the £1,720 million recorded in FY 2011.

The increase in the Retail segment's total revenue in FY 2013 principally reflects a £512 million increase in net interest income (which is discussed below).

The increase in the Retail segment's total revenue in FY 2012 reflects a £90 million increase in net interest income (which is discussed below), a gain on the acquisition of a prime residential mortgage portfolio from the Bank of Ireland in December 2011 and an increase in other income resulting from strong volume growth in current accounts, investments and general insurance in line with Nationwide's strategy of income diversification.

Net interest income

Six month periods to 30 September 2013 and 30 September 2012

Net interest income in the Retail segment was £1,200 million in the six months to 30 September 2013, £427 million, or 55 per cent., higher than the £773 million recorded in the corresponding period of 2012.

The increase in the Retail segment's net interest income in the six months to 30 September 2013 was largely due to continued repricing of existing mortgage assets, growth in new mortgage business and a fall in the cost of retail deposits. Current account credit balances exceeded £10 billion for the first time in the six months to 30 September 2013.

FY 2013, FY 2012 and FY 2011

Net interest income in the Retail segment was £1,941 million in FY 2013, £512 million, or 36 per cent., higher than the £1,429 million recorded in FY 2012 which, in turn, was £90 million, or 7 per cent., higher than the £1,339 million recorded in FY 2011.

The increase in the Retail segment's net interest income in FY 2013 included adjustments to reflect the changes in the effective interest rate assumptions, including a charge of £18 million (compared to a credit of £32 million in FY 2012) in respect of an update of early redemption charges and a credit of £2 million (in FY 2012 £70 million) which resulted from an update to the assumptions applicable to the recognition of mortgage fee income. It also includes a £48 million (in FY 2012 £nil) release of excess credit risk fair value adjustments in relation to the balances taken on through the acquisition of the Derbyshire and Cheshire building societies and core parts of the Dunfermline Building Society.

The increase in the Retail segment's net interest income in FY 2012 included £70 million from an update of Nationwide's assumptions to reflect its latest mortgage profile expectations. In addition, growth in new lending on prime residential mortgages, buy to let mortgages and personal loans and the positive impact of asset repricing contributed to the increase in net interest income in the Retail Segment. Margins on new mortgage lending increased in the second half of FY 2012 as additional funding and liquidity costs across the industry continued to impact the cost of credit, although this was partially offset by higher funding costs as savers sought higher returns in a low base rate environment and wholesale funding conditions remained difficult until the end of 2011 when action by the European Central Bank substantially eased conditions. Growth in personal lending, reflecting Nationwide's strategy of income diversification, contributed to the Retail segment's net interest income in FY 2012.

Underlying profit before tax

Six month periods to 30 September 2013 and 30 September 2012

Underlying profit before tax in the Retail segment was £592 million in the six months to 30 September 2013, £341 million, or 136 per cent., higher than the £251 million recorded in the corresponding period of 2012.

The Retail segment's underlying profit before tax reflects its total revenue less expenses and impairment and other provisions. In the six months to 30 September 2013, the Retail segment's expenses increased by £65 million, or 11 per cent., whilst its impairment charges fell by £14 million, or 13 per cent. The increase in expenses is primarily due to technology depreciation as well as the incremental cost of delivering further investment programmes. The fall in the impairment and other provisions charge principally reflected the high quality of Nationwide's retail lending portfolios coupled with increasing house prices, low interest rates and stable unemployment levels partially offset by a charge in respect of potential costs in relation to matters that may require remediation in light of a review of compliance with consumer credit legislation being undertaken across the industry.

FY 2013, FY 2012 and FY 2011

In FY 2013, the Retail segment's expenses increased by £108 million, or 9 per cent., whilst its impairment charges fell by £76 million, or 31 per cent. The increase in expenses reflected a combination of the cost of processing PPI claims, increased sales and service volumes to support income growth and depreciation from investment activities. The fall in the impairment and other provisions charge principally reflected the high quality of Nationwide's retail lending portfolios coupled with a stable house prices, low interest rates and stable unemployment levels.

In FY 2012, the Retail segment's expenses increased by £92 million, or 8 per cent., and its impairment charges increased by £56 million, or 30 per cent. The increase in expenses reflected higher volume-related costs and refined overhead allocation. The impairment and other provisions charge of £242 million in FY 2012 was made up of a residential mortgage impairment charge of £70 million (down from £101 million in FY 2011), a charge in relation to consumer banking of £69 million (down from £83 million in FY 2011) and a provision in respect of PPI claims of £103 million (up from £16 million in FY 2011). In addition, FY 2011 included a £14 million release of a provision for customer bonus schemes which was no longer required.

10.2 Commercial Segment

Total revenue

Six month periods to 30 September 2013 and 30 September 2012

Total revenue in the Commercial segment was £70 million in the six months to 30 September 2013, £34 million, or 94 per cent., higher than the £36 million recorded in the corresponding period of 2012. The increase in the Commercial segment's total revenue in the six months to 30 September 2013 principally reflects a £35 million increase in net interest income (which is discussed below).

FY 2013, FY 2012 and FY 2011

Total revenue in the Commercial segment was £92 million in FY 2013, £21 million, or 30 per cent., higher than the £71 million recorded in FY 2012, which, in turn, was £10 million, or 16 per cent., higher than the £61 million recorded in FY 2011.

The increase in the Commercial segment's total revenue in FY 2013 reflects a £21 million increase in net interest income (which is discussed further below).

The increase in the Commercial segment's total revenue in FY 2012 reflects an £12 million increase in net interest income (which is discussed further below) which was partially offset by a £2 million fall in other income.

Net interest income

Six month periods to 30 September 2013 and 30 September 2012

Net interest income in the Commercial segment was £61 million in the six months to 30 September 2013, £35 million, or 135 per cent., higher than the £26 million recorded in the corresponding period of 2012.

The increase in the Commercial segment's net interest income in the six months to 30 September 2013 principally reflected continued widening of customer margins as a result of the upward repricing of maturing loans and restructures agreed with existing borrowers and a reduction in the cost of funding.

FY 2013, FY 2012 and FY 2011

Net interest income in the Commercial segment was £74 million in FY 2013, £21 million, or 40 per cent., higher than the £53 million recorded in FY 2012 which, in turn, was £12 million, or 29 per cent., higher than the £41 million recorded in FY 2011.

The increase in the Commercial segment's net interest income in FY 2013 and FY 2012 principally reflected continued widening of customer margins as a result of the upward re-pricing of maturing loans and restructures agreed with existing borrowers.

Underlying loss before tax

Six month periods to 30 September 2013 and 30 September 2012

Underlying loss before tax in the Commercial segment was £182 million in the six months to 30 September 2013, £1 million, or 1 per cent., higher than the £181 million recorded in the corresponding period of 2012.

The Commercial segment's underlying loss before tax reflects its total revenue less expenses and impairment and other provisions. Although the Commercial segment's total revenue increased by £34 million in the six months to 30 September 2013 compared to the corresponding period of 2012, its expenses and impairment and other provisions increased by £35 million over the same period. The increase in the Commercial segment's expenses and impairment and other provisions in the six months to 30 September 2013 was driven by a £32 million increase in impairments, reflecting continued negative sentiment towards commercial real estate and uncertainty surrounding the economic outlook for the UK. The increased provisions in the six months to 30 September 2013 were attributable both to new provisions on cases which became impaired during the six months to 30 September 2013 and additional amounts on already impaired cases.

FY 2013, FY 2012 and FY 2011

Underlying loss before tax in the Commercial segment was £447 million in FY 2013, £233 million, or 109 per cent., higher than the £214 million loss recorded in FY 2012 which, in turn, was £68 million, or 47 per cent., higher than the £146 million loss recorded in FY 2011.

The increase in the Commercial segment's underlying loss before tax in FY 2013 was driven by a £246 million increase in impairments, reflecting continued negative sentiment towards commercial real estate and uncertainty surrounding the economic outlook for the UK. The increased provisions in FY 2013 were attributable both to new provisions on cases which became impaired during FY 2013 and additional amounts on already impaired cases. Nationwide also increased its collective provision for the commercial portfolio by £84 million in FY 2013. The increase in the Commercial segment's underlying loss before tax in FY 2012 was driven by a £72 million increase in impairments. This increase reflected a return to recessionary conditions in the UK and continuing concerns in relation to the European sovereign debt crisis which undermined investor confidence and appetite for the sector. As a result, the market experienced falling commercial real estate valuations in FY 2012. The increased provisions in FY 2012 were largely attributable to new and additional provisions on existing watch list cases where valuations had been eroded further or the commitment of equity providers to further investment had been withdrawn although Nationwide also increased its collective provision for the commercial portfolio by £16 million, reflecting its more negative outlook for FY 2013.

10.3 Head Office Functions Segment

Total revenue

Six month periods to 30 September 2013 and 30 September 2012

Total revenue in the Head Office Functions segment was negative £53 million in the six months to 30 September 2013, £152 million, or 154 per cent., lower than the £99 million recorded in the corresponding period of 2012. The Head Office Functions segment derives other income from investments held by the Treasury Department and the net profit (or loss) on revaluations and sales of property, plant and equipment. In the six months to 30 September 2013, the Head Office Functions segment earned other income of £124 million primarily from liability management activity and net interest expense of £177 million (which is discussed below).

FY 2013, FY 2012 and FY 2011

Total revenue in the Head Office Functions segment was £19 million in FY 2013, £89 million, or 82 per cent., lower than the £108 million recorded in FY 2012 which, in turn, was £31 million, or 22 per cent., lower than the £139 million recorded in FY 2011.

In FY 2013, the Head Office Functions segment earned other income of £53 million primarily from liability management activity and net interest expense of £34 million. In FY 2012, no other income was earned in the Head Office Functions segment resulting in its total revenue being equal to its net interest income. In FY 2011, the Head Office Functions segment earned other income of £10 million and net interest income of £129 million.

Net interest income

Six month periods to 30 September 2013 and 30 September 2012

Net interest expense in the Head Office Functions segment was £177 million in the six months to 30 September 2013, £268 million, or 294 per cent., lower than the £91 million net interest income recorded in the corresponding period of 2012.

The decrease in the Head Office Functions segment's net interest income in the six months to 30 September 2013 is a combination of reduced costs of funding, a loss from non-core asset sales which have been capital accretive, a decrease in return on the general reserves and Additional Tier 2 capital issuance costs.

FY 2013, FY 2012 and FY 2011

Net interest expense in the Head Office Functions segment was £34 million in FY 2013, £142 million, or 131 per cent., lower than the net interest income of £108 million recorded in FY 2012 which, in turn, was £21 million, or 16 per cent., lower than the £129 million recorded in FY 2011.

The fall in the Head Office Functions segment's net interest income in FY 2013 principally resulted from a fall in the cost of funding. The fall in the Head Office Functions segment's net interest income in FY 2012 principally resulted from higher wholesale funding costs, partially offset by higher gains from the management of the liquidity portfolio.

Underlying profit/(loss) before tax

Six month periods to 30 September 2013 and 30 September 2012

Underlying loss before tax in the Head Office Functions segment was £78 million in the six months to 30 September 2013, £138 million, or 230 per cent., lower than the £60 million underlying profit recorded in the corresponding period of 2012.

The Head Office Functions segment's underlying profit before tax reflects its total revenue less expenses and impairment and other provisions. During the six months to 30 September 2013, no impairments have been raised on Treasury assets with only a small write back following the sale of an asset. There has been a £3 million impairment loss on other lending in connection with corporate loans held with a subsidiary. The six months to 30 September 2012 included a £23 million loss on a single UK commercial mortgage backed security.

FY 2013, FY 2012 and FY 2011

Underlying loss before tax in the Head Office Functions segment was £19 million in FY 2013 compared to a £7 million loss recorded in FY 2012 and a profit of £60 million recorded in FY 2011.

The Head Office Functions segment's expenses in FY 2013 were £33 million, £40 million lower than the £73 million recorded in FY 2012, reflecting refined cost allocation. The Head Office Functions segment's impairment charge in FY 2013 was £5 million, £37 million lower than the £42 million recorded in FY 2012. This fall primarily reflected a write back on sale of US asset backed investments of £19 million compared to a £31 million charge in FY 2012.

The Head Office Functions segment's expenses in FY 2012 were £73 million, £35 million, or 32 per cent., lower than the £108 million recorded in FY 2011 reflecting lower corporate costs. The Head Office Functions segment's impairment charge in FY 2012 was £42 million, £24 million, or 36 per cent., lower than the £66 million recorded in FY 2011. This fall reflected a lower impairment loss on available for sale investments (which was £38 million in FY 2012 compared to £66 million in FY 2011). In FY 2012, the Head Office Functions segment also recorded a £4 million impairment loss on other lending in connection with corporate loans held with a subsidiary. No equivalent impairment loss was recorded in FY 2011.

11. LIQUIDITY AND FUNDING

11.1 Overview

Nationwide has a strong and well diversified funding base, which predominantly comprises retail savings. Nationwide continues to actively manage its balance sheet in response to conditions in both the retail and wholesale markets. Nationwide does not experience any material seasonality in its borrowing requirements.

The Society's core liquidity ratio (which is Nationwide's core liquidity portfolio expressed as a percentage of adjusted share, deposit and loan liabilities) was 11.1 per cent. at 30 September 2013, 11.1 per cent. at 4 April 2013, 13.7 per cent. at 4 April 2012 and 13.8 per cent. at 4 April 2011. In June 2012, the Bank of England activated its Extended Collateral Term Repo (**ECTR**) facility with the aim of mitigating prospective risks to financial stability. In July 2012, Funding for Lending was introduced and in April 2013 it was extended until January 2015. Both Funding for Lending and the ECTR accept the same broad range of collateral as the Bank of England's Discount Window Facility (the **DWF**). In addition, the then Financial Services Authority relaxed its definition of assets that count towards the Liquid Asset Buffer, which now allows a proportion of a firm's regulatory liquidity requirements to be met by collateral pre-positioned at the DWF. These developments allowed Nationwide to reduce the volume of liquidity held during FY 2013 and in the six months to 30 September 2013.

11.2 Analysis of cash flows

The following tables summarise Nationwide's statements of cash flows for each of the six month periods ended 30 September 2013 and 30 September 2012 and for each of FY 2013, FY 2012 and FY 2011, respectively.

	Six months ended 30 September	
	2013	2012
	(£ millions)	
Net cash flows generated from/(used in) operating activities	711	(5,814)
Net cash flows generated from investing activities	1,400	6,600
Net cash flows used in financing activities	(364)	—
Net increase in cash	1,747	786
Cash and cash equivalents at the start of the period	10,075	10,700
Cash and cash equivalents at the end of the period	11,822	11,486

	Year ended 4 April		
	2013	2012	2011
		(£ millions)	
Net cash flows (used in)/generated from operating activities	(11,888)	1,826	3,366
Net cash flows generated from/(used in) investing activities	10,700	(890)	1,036
Net cash flows generated from/(used in) financing activities	563	(360)	(89)
Net (decrease)/increase in cash	(625)	576	4,313
Cash and cash equivalents at the start of the year	10,700	10,124	5,811
Cash and cash equivalents at the end of the year	10,075	10,700	10,124

Operating cash flow

Six month periods to 30 September 2013 and 30 September 2012

Net cash generated from operating activities in the six months to 30 September 2013 was £711 million compared to net cash used in operating activities of £5,814 million in the six months to 30 September 2012. The principal adjustments to Nationwide's profit before tax in each period to derive its net cash flow from operating activities in that period were changes in operating assets and changes in operating liabilities. The principal changes within operating assets in each year were changes in loans and advances to customers (which resulted in significant decreases in the six month periods to 30 September 2013 and 30 September 2012) and changes in derivative financial instruments and fair value adjustment for portfolio hedged risk (which resulted in a significant increase in the six month period to 30 September 2013). The principal changes in operating liabilities were changes in shares (which resulted in a significant increase in the six months to 30 September 2013), changes in derivative financial liabilities and fair value adjustment for portfolio hedged risk (which resulted in a significant decrease in the six months to 30 September 2013) and changes in debt securities in issue (which resulted in a significant decrease in the six months to 30 September 2012 and, to a lesser extent, in the six months ended 30 September 2013). Changes in Nationwide's wholesale funding balances of deposits and debt securities in issue are considered operating activities as they relate to Nationwide's lending and liquidity management activities and so form part of the normal course of business.

FY 2013, FY 2012 and FY 2011

Net cash used in operating activities in FY 2013 was £11,888 million compared to net cash generated from operating activities in FY 2012 of £1,826 million and net cash generated from operating activities of £3,366 million in FY 2011. The principal adjustments to Nationwide's profit before tax in each financial year to derive its net cash flow from operating activities in that financial year were changes in operating assets, changes in operating liabilities and, in FY 2012, a deduction for the purchase cost of a retail mortgage portfolio.

Investing cash flow

Six month periods to 30 September 2013 and 30 September 2012

Net cash generated from investing activities in the six months to 30 September 2013 was £1,400 million compared to net cash generated from investing activities in the six months to 30 September 2012 of £6,600 million. Net cash generated from or used in investing activities principally reflects Nationwide's purchases and sales of investment securities during each period.

There are no material restrictions on the ability of the Society's subsidiaries to transfer funds to the Society and, in each of the six month periods to 30 September 2013 and 30 September 2012, the Society received dividends of £2 million from its subsidiary undertakings.

FY 2013, FY 2012 and FY 2011

Net cash generated from investing activities in FY 2013 was £10,700 million compared to net cash used in investing activities in FY 2012 of £890 million and net cash generated from investing activities of £1,036 million in FY 2011. Net cash generated from or used in investing activities principally reflects Nationwide's purchases and sales of investment securities during each financial year.

In each of FY 2013, FY 2012 and FY 2011, the Society received dividends of £74 million, £489 million and £64 million from its subsidiary undertakings.

Financing cash flow

Six month periods to 30 September 2013 and 30 September 2012

Net cash used in financing activities in the six months to 30 September 2013 was £364 million compared to £nil in the six months to 30 September 2012. Net cash used in financing activities reflects increases and decreases in Nationwide's subordinated liabilities and, in the six months to 30 September 2013, subscribed capital. These are considered financing activities because they form part of Nationwide's capital management for solvency purposes.

FY 2013, FY 2012 and FY 2011

Net cash generated from financing activities in FY 2013 was £563 million compared to net cash used in financing activities of £360 million in FY 2012 and £89 million in FY 2011. Net cash generated from or used in financing activities reflects increases and decreases in Nationwide's subordinated liabilities and, in FY 2013, subscribed capital.

11.3 Liquidity

Liquidity represents a significant area of risk for financial institutions and, as such, it is a main area of focus for regulatory authorities. Nationwide continues to enhance and strengthen its liquidity management systems and approach.

Nationwide has a comprehensive Liquidity Risk Management Framework for managing its liquidity risk. Liquidity stress testing is carried out against a number of scenarios including those prescribed by the regulator, considering a range of liquidity and economic factors and the consequent impact on Nationwide over multiple time horizons. Liquidity risk is managed against limits using a number of these scenarios. Included within the liquidity stresses is the deemed impact of potential rating agency downgrades. Nationwide also has in place a Contingency Funding Plan which details a range of actions Nationwide would be able to take in the event of a funding stress, including utilising its stock of self-issued RMBS and covered bonds through repos. Further information on liquidity risk is set out under "*Part XVII: Risk management*".

In December 2010, the Basel Committee on Banking Supervision issued its proposals for liquidity risk management, standards and monitoring. These included a short-term liquidity stress metric, the Liquidity Coverage Ratio (the **LCR**), and a longer-term liquidity metric, the Net Stable Funding Ratio (the **NSFR**). The Basel Committee announced revisions to the implementation of the LCR in January 2013. On 27 June 2013, the CRD IV directive and associated regulation, which includes requirements for the LCR and NSFR, were published in the Official Journal of the European Union. These measures are subject to ongoing development, so there remains uncertainty as to their final form.

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

- core liquidity;
- other eligible central bank assets;
- other securities;
- self-issued RMBS and covered bonds; and
- whole mortgage loan pools pre-positioned at the Bank of England.

Core liquidity

Nationwide maintains a high quality core liquidity portfolio through continued investment in highly liquid securities in line with the Liquid Assets Buffer defined by the FCA in BIPRU 12 which comprises:

- Reserves held at central bank; and
- Highly rated debt securities of varying maturities issued by a restricted list of governments, central banks and multi-lateral development banks.

Nationwide's core liquidity portfolio as a percentage of adjusted share, deposit and loan liabilities was 11.1 per cent. at 30 September 2013, 11.1 per cent. at 4 April 2013, 13.7 per cent. at 4 April 2012 and 13.8 per cent. at 4 April 2011. This calculation is made net of any core liquidity holdings that are encumbered (through repo arrangements or other transactions) but includes assets held under reverse repo arrangements.

Other eligible central bank assets

In addition to the core liquidity portfolio, as at 30 September 2013 Nationwide held £1.2 billion of unencumbered securities that are eligible for use in the funding operations of those central banks that it has access to. This figure does not include the value of self-issued securities that could also be included in some central bank operations. In terms of their relative liquidity characteristics, these assets may be viewed as the next tier below the core liquidity portfolio.

Other securities

Nationwide holds other third party liquid assets (such as ABS investment securities) that are not eligible at either the Bank of England's or the European Central Bank's operations but may be capable of financing through third party repo agreements.

Self-issued RMBS and covered bonds

Nationwide holds undrawn, AAA-rated bonds issued under its asset-backed funding programmes. These self-issued bonds represent eligible collateral for use in repurchase agreements with third parties or in central bank operations.

Whole mortgage loan pools pre-positioned at the Bank of England

Nationwide holds a number of unencumbered whole mortgage loan pools at the Bank of England for use as collateral for contingent funding.

The following table sets out the fair value (before any haircut deduction) of each of the above liquidity types as at 30 September 2013 and as at 4 April in each of 2013, 2012 and 2011. The table includes off balance sheet liquidity (including self-issued RMBS and covered bonds) but excludes any encumbered assets:

	As at 30 September	As at 4 April		
	2013	**2013**	**2012**	**2011**
	(£ billions)			
Core liquidity	19.8	19.2	24.5	23.5
Other central bank eligible assets	1.2	1.4	2.5	5.6
Other securities	2.3	2.7	4.0	3.2
Self-issued RMBS and covered bonds	14.0	14.0	16.3	18.3
Whole mortgage loan pools pledged with the Bank of England	1.2	1.4	—	—
Total	**38.5**	**38.7**	**47.3**	**50.6**

11.4 Treasury liquid assets

Nationwide's treasury liquid assets include cash, loans and advances to banks and investment securities available for sale. These are held in two portfolios. The classification of liquid assets was modified during FY 2012 to better reflect the management of the portfolios and bring the analysis in line with FCA definitions in BIPRU 12. The portfolio is now categorised between core and non-core liquidity. Previously, the same portfolio of assets had been classified between liquidity and investment assets, which reflected the legacy investment strategies.

Core liquidity comprises cash and highly rated debt securities issued by governments or multi-lateral development banks. The non-core portfolio comprises available for sale assets held for investment purposes, plus clearing amounts.

Nationwide's treasury assets at 30 September 2013 were £23.5 billion compared to £23.8 billion at 4 April 2013, £34.3 billion at 4 April 2012 and £31.9 billion at 4 April 2011. These assets are held in two separate portfolios: the core liquidity portfolio and the non-core portfolio. At 30 September 2013, the core liquidity portfolio totalled £17.4 billion (compared to £16.9 billion at 4 April 2013, £24.8 billion at 4 April 2012 and £18.7 billion at 4 April 2011) with the non-core liquidity portfolio totalling £6.1 billion (compared to £6.9 billion at 4 April 2013, £9.5 billion at 4 April 2012 and £13.2 billion at 4 April 2011). The £7.9 billion decrease in the core liquidity portfolio in at 4 April 2013 is principally due to the sale of UK gilts following relaxation of regulatory liquidity rules permitting wider use of contingent liquidity. The £6.1 billion increase in the core liquidity portfolio at 4 April 2012 comprises high quality, predominantly sovereign or government backed assets. The reporting of asset quality within the treasury portfolio has been modified to reflect the management of the portfolios and to bring the analysis in line with FCA definitions as laid out in BIPRU 12.

An analysis of Nationwide's core and non-core liquidity portfolios by credit rating and geography as at 4 April in each of 2013, 2012 and 2011 is set out in note 34 to the Consolidated Annual Financial Information.

Nationwide continues to manage the treasury liquid asset portfolio to increase the quality and liquidity of the assets with 74 per cent. of the total portfolio at 30 September 2013 held in core liquidity exposures compared to 71 per cent. at 4 April 2013, 72 per cent. at 4 April 2012 and 59 per cent. at 4 April 2011. As at 30 September 2013, 98 per cent. of the treasury liquid asset portfolio was rated A or better with 86 per cent. rated AA or above (compared to 97 per cent. rated A or better and 85 per cent. rated AA or better at 4 April 2013, 97 per cent. rated A or better and 84 per cent. rated AA or better at 4 April 2012 and 97 per cent. rated A or better and 82 per cent. rated AA or better at 4 April 2011).

The portfolio has experienced some negative rating migration as a result of the ongoing implementation of rating agency methodology changes and continued asset quality deterioration. However, the overall credit quality remains strong with only a low level of impairment incurred.

Nationwide has no direct sovereign exposure to the GIIPS countries. Within the non-core portfolio, Nationwide had £0.8 billion in principal amount of non-sovereign exposures in these countries at 30 September 2013. Of these, 40 per cent. was rated AA or above and 66 per cent. was rated A or above as at 30 September 2013. This exposure has reduced by 27 per cent. in the six months to 30 September 2013 and by 11 per cent. in FY 2013 from disposals, maturities, fair value movements and through the impact of exchange rate movements – there were no new investments in either period.

An independent monthly review is undertaken on the current and expected future performance of all treasury assets. A governance structure exists to identify and review under-performing assets and highlight the likelihood of future losses. In accordance with applicable accounting standards, treasury assets are impaired where there is objective evidence that current events and/or performance will result in a loss. In assessing impairment, Nationwide evaluates among other factors, the normal volatility in valuation, evidence of deterioration in the financial health of the investee, industry and sector performance and operational and financing cash flows. A net impairment write back of £1 million was recognised in the income statement for the six months ended 30 September 2013 in respect of the non-core portfolio. In FY 2013, FY 2012 and FY 2011, impairments in respect of the treasury liquid assets portfolio were £2 million, £31 million and £66 million, respectively. In addition, an impairment of £7 million was recognised in FY 2012 on investments in equity shares.

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

Available for sale reserve

Out of a total of £23.5 billion of assets held in the core and non-core portfolios at 30 September 2013, £11.2 billion were held as available for sale (**AFS**) and, under IFRS, they are marked to market through other comprehensive income and fair value movements are accumulated in reserves. The non-AFS assets are loans to banks or deposits with the Bank of England. Of the £11.2 billion of AFS assets, only £81 million were classified as Level 3 (valuation not based on observable market data) for the purposes of IFRS 7.

The AFS assets have been reviewed based upon the latest performance data and a net impairment write back of £0.7 million was booked against them in the six months to 30 September 2013 comprising an impairment loss of £1.5 million mainly on a single US collateralised debt obligation offset by £2.2 million of impairment write backs in connection with asset disposals during the period. The fair value movement of AFS assets that are not impaired have no effect on Nationwide's profit or its regulatory capital.

As at 30 September 2013 the balance on the AFS reserve had improved to £163 million negative, net of tax from £252 million negative at 4 April 2013, £356 million negative at 4 April 2012 and £487 million negative at 4 April 2011. The improvement in the AFS reserve in the six months to 30 September 2013 reflected general market movements and disposals of non-core portfolio assets resulting in losses which are recognised in Nationwide's net interest income. The improvement in the AFS reserve in FY 2012 and FY 2013 reflected general market movements, partly offset by the sale of core liquidity and non-core assets which have shown a favourable movement in market value, resulting in gains which are recognised in Nationwide's net interest income and net impairment losses in the income statement.

The following tables set out the breakdown of Nationwide's cumulative AFS reserve and the carrying value of Nationwide's core and non-core portfolios assets as at 30 September 2013 and as at 4 April in each of 2013, 2012 and 2011.

	As at 30 September 2013	
	Carrying value on balance sheet	**Cumulative AFS reserve**
	(£ billions)	
Cash	9.7	—
Gilts	4.9	(0.3)
Non-domestic government bonds	1.9	—
Supranational bonds	0.8	—
US medium-term notes	0.1	—
Core liquidity portfolio total[1]	**17.4**	**(0.3)**
Loans and advances to banks	2.5	—
RMBS	1.3	0.1
CMBS	0.3	0.1
Covered bonds	0.5	—
CLO	0.6	—
Financial institutions bonds	0.2	—
US student loan	0.4	—
Other investments	0.3	—
Non-core portfolio total	**6.1**	**0.2**
Positive AFS reserve before hedge accounting and taxation	—	(0.1)
Hedge accounting adjustment for interest rate risk	—	0.4
Taxation	—	(0.1)
Total	**23.5**	**0.2**

	As at 4 April					
	2013		2012		2011	
	Carrying value on balance sheet	Cumulative AFS reserve	Carrying value on balance sheet	Cumulative AFS reserve	Carrying value on balance sheet	Cumulative AFS reserve
			(£ billions)			
Cash	7.9	—	8.1	—	6.1	—
Gilts	5.6	(0.7)	12.8	(1.0)	8.6	0.1
Non-domestic government bonds	2.3	(0.1)	2.4	—	2.2	(0.1)
Supranational bonds	1.0	(0.1)	1.5	(0.1)	1.8	(0.1)
US medium-term notes	0.1	—	—	—	—	—
Core liquidity portfolio total[(1)]	**16.9**	**(0.9)**	**24.8**	**(1.1)**	**18.7**	**(0.1)**
Loans and advances to banks	2.5	—	2.9	—	4.2	—
RMBS	1.6	0.3	2.1	0.4	2.8	0.2
CMBS	0.4	0.1	0.5	0.1	0.6	0.1
Covered bonds	0.6	—	0.9	—	0.7	—
CLO	0.7	—	0.6	—	0.6	0.1
Financial institutions bonds	0.3	—	1.4	—	3.0	0.3
US student loan	0.5	—	0.7	0.1	0.7	0.1
Other investments	0.3	—	0.4	—	0.6	—
Non-core portfolio total	**6.9**	**0.4**	**9.5**	**0.6**	**13.2**	**0.8**
(Positive)/negative AFS reserve before hedge accounting and taxation		(0.5)		(0.5)		0.7
Hedge accounting adjustment for interest rate risk		0.9		1.0		—
Taxation		(0.1)		(0.1)		(0.2)
Total	**23.8**	**0.3**	**34.3**	**0.4**	**31.9**	**0.5**

Note:

(1) The figures for core liquidity in these tables are not comparable with those in the table above on page 185 because the previous table includes off balance sheet liquidity and excludes certain asset types, such as unencumbered assets. The tables above include all on balance sheet wholesale funding types.

An analysis of financial assets and liabilities held on Nationwide's balance sheet at fair value as at 4 April in each of 2013, 2012 and 2011, grouped in levels 1 to 3 based on the degree to which the fair value is observable, is set out in note 36 to the Consolidated Annual Financial Information and note 13 to the Consolidated Interim Financial Information.

11.5 Retail funding

Nationwide's retail funding comprises the deposits which it accepts from members of the public and which are classified as "Shares" in its balance sheet as they confer member status on the depositors. Nationwide's member accounts include instant access accounts, from which funds may be withdrawn on demand, and notice accounts, from which funds withdrawn without appropriate notice may be subject to penalties. In accordance with the Act, Nationwide is required to ensure that at least 50 per cent. of its total shares and borrowings comprises shares held by individuals.

Nationwide's retail funding is predominantly denominated in pounds sterling and comprises both fixed and variable rate deposits.

The following table sets out Nationwide's retail funding by residual maturity as at 30 September 2013 and as at 4 April in each of 2013, 2012 and 2011.

	As at 30 September 2013	As at 4 April 2013	2012	2011
	(£ millions)			
Repayable on demand	83,719	77,103	67,469	67,435
Repayable in less than three months	7,399	8,765	7,614	7,284
Repayable between three and 12 months	19,742	20,246	28,794	20,091
Repayable between one and five years	16,851	17,877	21,267	27,361
Repayable in more than five years	3,240	1,583	473	381
Total	**130,951**	**125,574**	**125,617**	**122,552**

11.6 Wholesale funding

Nationwide's wholesale funding activities are undertaken by its Treasury Department with a view to ensuring, in conjunction with Nationwide's other sources of liquidity, sufficient resources to cover cash flow mismatches and fluctuations in funding, to retain full public confidence in Nationwide's solvency and to enable it to meet all its financial obligations. Nationwide's liquidity policy is described in more detail in "*Part XVII: Risk management*" and in note 35 to the Consolidated Annual Financial Information.

Nationwide utilises a wide range of funding sources, including:

- the sale and repurchase of eligible securities with central banks such as the Bank of England and the European Central Bank;
- short-term time deposits and longer-term protected equity bonds;
- the issuance of certificates of deposit and euro and US commercial paper in a range of different currencies;
- medium- and long-term debt securities issued under a range of different programmes (including securitisations and covered bonds as well as unsecured debt securities); and
- until recently, PIBS.

A significant proportion of Nationwide's wholesale funding activity is undertaken in currencies other than pounds sterling and Nationwide typically uses derivative instruments to hedge the foreign currency exposure arising. Further information in relation to Nationwide's activities in relation to derivatives is set out in "*Part XVII: Risk management*" and in notes 16 and 34 to the Consolidated Annual Financial Information.

Nationwide raises a significant proportion of its wholesale funding under securitisation and covered bond programmes and also utilises other arrangements which involve it granting security over its assets. The extent of the security granted is set out in the table below.

The following table sets out an analysis of Nationwide's wholesale funding (made up of deposits from banks, other deposits and debt securities in issue as disclosed on the balance sheet) as at 30 September 2013 and as at 4 April in each of 2013, 2012 and 2011.

	As at 30 September 2013		As at 4 April 2013		2012		2011	
	(£ billions, except percentages)							
Repo and other secured agreements	1.0	2.4%	1.2	2.8%	3.7	7.5%	2.7	5.8%
Deposits, including PEB balances	9.4	22.2%	8.7	20.0%	7.8	15.9%	7.2	15.5%
Certificates of deposit	3.3	7.8%	3.8	8.8%	4.3	8.7%	4.7	10.2%
Commercial paper	4.0	9.5%	4.0	9.2%	3.7	7.5%	6.2	13.3%
Covered bonds	11.3	26.8%	11.4	26.3%	13.0	26.5%	12.3	26.5%
Medium-term notes	4.3	10.2%	4.7	10.8%	7.1	14.5%	8.4	18.1%
Securitisations	7.3	17.3%	7.6	17.5%	7.4	15.1%	3.7	8.0%
Other non-retail	1.6	3.8%	2.0	4.6%	2.1	4.3%	1.2	2.6%
Total	**42.2**	**100.0%**	**43.4**	**100.0%**	**49.1**	**100.0%**	**46.4**	**100.0%**
of which secured	19.6	46.4%	21.9	50.5%	24.3	49.5%	18.9	40.7%
of which unsecured	22.6	53.6%	21.5	49.5%	24.8	50.5%	27.5	59.3%

Reflecting its activity in the long-term debt market in FY 2012, its access to Funding for Lending from FY 2013 and reduced regulatory liquidity requirements from FY 2013, Nationwide had minimal long-term funding requirements in FY 2013 and in the six months to 30 September 2013.

During FY 2012, Nationwide received new investment premiums of £0.8 billion into protected equity bonds (**PEBs**), increasing its total PEB balances to £2.9 billion as at 4 April 2012. Nationwide also remained active in the long-term markets during FY 2012, utilising all its platforms to issue a total of £7.9 billion sterling equivalent which was significantly in excess of its maturities during the financial year of £3.5 billion.

During FY 2012, Nationwide fully repaid its SLS drawings well ahead of both its contractual commitments and its bilateral agreements with the Bank of England. In addition, Nationwide repaid £1.5 billion of Credit Guarantee Scheme (**CGS**) drawings during FY 2012 and has no further CGS drawings outstanding.

Short-term funding (being funding with an original maturity of less than one year) has remained broadly stable at £11 billion at 30 September 2013, £12 billion at 4 April 2013, £12 billion at 4 April 2012 and £15 billion at 4 April 2011. Nationwide has maintained a consistent presence in short-term markets during all these periods. The average term at the point of issuance of outstanding short-term balances as at 30 September 2013 was 143 days compared to 162 days at 30 April 2013, 131 days at 4 April 2012 and 156 days at 4 April 2011.

The residual maturity profile of Nationwide's wholesale funding portfolio was 32 months at 30 September 2013 compared to 35 months at 4 April 2013, 37 months at 4 April 2012 and 33 months at 4 April 2011 and the proportion of funding that is categorised as long-term (that is, with an outstanding maturity greater than one year) was 60.7 per cent. at 30 September 2013 compared to 62.2 per cent. at 4 April 2013, 60.1 per cent. at 4 April 2012 and 56.3 per cent. at 4 April 2011.

The following table sets out the residual maturity of Nationwide's wholesale funding portfolio as at 30 September 2013 and as at 4 April in each of 2013, 2012 and 2011.

	As at 30 September 2013		As at 4 April					
			2013		2012		2011	
	(£ billions, except percentages)							
Less than one year	16.6	39.3%	16.4	37.8%	19.6	39.9%	20.3	43.7%
One to two years..........	8.3	19.7%	7.3	16.8%	3.7	7.6%	4.9	10.6%
Two to five years.........	10.1	23.9%	11.8	27.2%	16.8	34.2%	13.6	29.3%
More than five years	7.2	17.1%	7.9	18.2%	9.0	18.3%	7.6	16.4%
Total..........................	**42.2**	**100.0%**	**43.4**	**100.0%**	**49.1**	**100.0%**	**46.4**	**100.0%**

The Society tendered for £715 million of PIBS in September 2013 as part of Nationwide's capital optimisation strategy. This resulted in the Society redeeming £485 million of PIBS with the consent of the PRA. The 68 per cent. participation rate contributed £124 million to profit in the period with the majority of this attributable to the unwinding of the associated swaps.

Since 30 September 2013, the Society has redeemed a further £21 million of PIBS.

Further details of the PIBS balances and redemptions can be found in paragraphs 4 "*Deferred share capital of the Society*" of "*Part XXI: Additional Information*".

The following table sets out Nationwide's short and long-term credit ratings from the major rating agencies as at the date of this Prospectus.

	Long-Term(1)	Short-Term(2)	Subordinated(3)	Date of last rating action(4)
S&P..	A	A-1	BBB	August 2013
Moody's	A2	P-1	Baa1	October 2013
Fitch	A	F1	A-	September 2013

Note:

(1) Terms used: S&P – Senior Unsecured; Moody's – Senior Unsecured; Fitch – Long-Term IDR

(2) Terms used: S&P – Short-Term Debt; Moody's – Bank Deposits; Fitch – Short-Term IDR

(3) Terms used: S&P – Subordinated; Moody's – Subordinate; Fitch – Lower Tier 2

(4) The outlook for Moody's and Fitch is Stable and the outlook for S&P is Negative.

On 9 November 2011, S&P revised its global criteria for rating financial institutions, including placing a heightened emphasis on economic and industry risk across all financial institutions. On 8 December 2011, S&P confirmed that the revised criteria had not affected its existing ratings of Nationwide and that it was revising Nationwide's outlook to stable from negative. On 18 December 2012, S&P again affirmed Nationwide's existing A+/A-1 long-term and short-term counterparty credit ratings, but revised the outlook to negative from stable following similar action in respect of the UK's long-term sovereign credit ratings and concern regarding the adverse trend in Nationwide's risk adjusted capital ratio. On 16 August 2013, S&P lowered Nationwide's long-term rating to A (with negative outlook).

On 7 October 2011, Moody's announced that it was downgrading the senior debt and deposit ratings of 12 UK financial institutions and confirming the ratings of one institution, following its review of systemic support assumptions from the Government for these institutions, which it initiated on 24 May 2011. The ratings actions announced included a two-notch downgrade of Nationwide's long-term debt rating from Aa3 to A2. On 27 February 2013 and 24 October 2013, Moody's affirmed Nationwide's A2/P-1 ratings for bank deposits and senior unsecured debt. The outlook on these ratings is stable.

On 3 November 2011, Fitch announced that it was downgrading Nationwide's long-term and short-term issuer default ratings and the PIBS and that such rating actions were consistent with Fitch's broad review of other larger and relatively highly-rated European banks. The ratings actions announced included a downgrade of Nationwide's senior unsecured long-term debt and member deposits rating from AA- to A+. On 23 February 2012, Fitch upgraded the dated subordinated debt of UK building societies following the introduction of revised criteria on rating regulatory capital. On 8 March 2012, as part of further global rating action on bank regulatory capital and similar securities under the new criteria, Fitch downgraded the rating of Nationwide's PIBS. On 19 September 2013, Fitch downgraded Nationwide's long-term issuer default rating to A (with stable outlook).

See "*Rating downgrades and/or negative market sentiment with respect to Nationwide, the sector, the UK and/or other sovereign issuers may have an adverse effect on Nationwide's performance*" in "*Part II: Risk Factors*".

11. CONTRACTUAL COMMITMENTS

For details of the amounts of certain of Nationwide's financial and other contractual liabilities and when payments are due, without taking into account customer deposits and deposits by other financial institutions, see note 32 to the Consolidated Annual Financial Information.

12. OFF-BALANCE SHEET ARRANGEMENTS

Nationwide's off-balance sheet commitments at 30 September 2013 amounted to £7,994 million compared to £7,159 million at 4 April 2013 and £5,290 million at 4 April 2012. The table below shows the gross undiscounted contractual cash flows payable under those commitments at 30 September 2013, 4 April 2013 and 4 April 2012.

	Up to 3 months	3 to 12 months	1 to 5 years	More than 5 years	Total
			(£ millions)		
30 September 2013	5,928	344	1,095	627	**7,994**
4 April 2013	4,842	351	1,227	739	**7,159**
4 April 2012	3,213	371	1,084	622	**5,290**
4 April 2011	3,563	341	1,140	792	**5,836**

13. RELATED PARTY TRANSACTIONS

For a description of Nationwide's related party transactions, see note 38 to the Consolidated Annual Financial Information and note 17 to the Consolidated Interim Financial Information.

14. ACCOUNTING POLICIES, JUDGMENTS AND CRITICAL ESTIMATES

For details of the accounting policies used by Nationwide, see note 1 to the Consolidated Annual Financial Information and Note 2 to the Consolidated Interim Financial Information. In preparing Nationwide's financial statements, the Society is required to make certain judgments and estimates. These affect the reported amounts of Nationwide's assets and liabilities, including disclosure of contingent assets and liabilities, at the date of the financial statements as well as the reported amounts of its revenues and expenses during the periods presented. The Society bases its estimates and assumptions on historical experience and other factors that it believes to be reasonable at the time the estimates and assumptions are made and evaluates the estimates and assumptions on an ongoing basis. However, future events and their effects cannot be predicted with certainty and the determination of appropriate estimates and assumptions requires the use of judgment. Actual outcomes may differ from any estimates or assumptions made and such differences may be material to the financial statements. For a discussion of the most significant areas where judgments and estimates are made in the preparation of Nationwide's financial statements, see notes 3, 4, 11, 15, 17, 27 and 31 to the Consolidated Annual Financial Information and notes 8 and 9 to the Consolidated Interim Financial Information.

15. DISCLOSURES ABOUT RISK

For a discussion of Nationwide's risk management activities, see "*Part XVII: Risk management*".

PART XV – CAPITAL ADEQUACY

CAPITAL RESOURCES

Capital is held by Nationwide to protect its depositors, to cover its inherent risks, to provide a cushion for unexpected losses, and to support the development of the business. In assessing the adequacy of its capital resources, Nationwide considers its risk appetite, the material risks to which Nationwide is exposed and appropriate management strategies required to manage those risks.

Nationwide is required to manage its capital in accordance with prudential rules issued by the PRA and, from 1 January 2008, Nationwide has complied with the rules which implement the EU Capital Requirements Directive (**Basel II**). Since 4 April 2009, Nationwide has predominantly calculated its capital requirement on an Internal Ratings Based (**IRB**) approach.

As at 30 September 2013, regulatory capital stood at £8.2 billion (4 April 2013: £8.5 billion and 4 April 2012: £9.0 billion) with Nationwide's total solvency ratio increasing to 20.0 per cent. (4 April 2013: 19.1 per cent. and 4 April 2012: 18.9 per cent.). The Core Tier 1 capital ratio remains strong at 14.2 per cent. (4 April 2013: 12.3 per cent. and 4 April 2012: 12.5 per cent.).

Since July 2012, the capital requirement for the majority of Nationwide's commercial exposures, has been calculated using the Foundation IRB approach (previously Standardised). As a result specialised lending slotting criteria were introduced to calculate the capital for the Property Finance and Project Finance portfolios. At the time, this led to a reduction in risk weighted assets and an increase in expected losses which caused a reduction of 0.35 per cent. in Nationwide's Core Tier 1 ratio.

The final text of CRD IV was published on 27 June 2013, for implementation to commence on 1 January 2014. The European Banking Authority is in the process of releasing a number of technical standards to provide further detail on specific parts of CRD IV. In addition, the PRA published a consultation paper on 2 August 2013 outlining its intended approach to implementing CRD IV in the UK.

The most significant changes under CRD IV are:

- additional deductions will apply to capital resources;
- most existing Additional Tier 1 and Tier 2 instruments will no longer be eligible as own funds and their eligibility will be reduced over a phased implementation period; and
- firms will need to hold a higher quantity of Common Equity Tier 1 capital than under the existing regulations.

In the UK and in accordance with national discretions permitted under CRD IV, the PRA is proposing to:

- accelerate implementation of Common Equity Tier 1 deductions so that they will apply in full from 1 January 2014; and
- potentially increase firms' Common Equity Tier 1 requirements above the levels in CRD IV, with additional requirements phased in during the period from 2014 up to 2018.

The table below sets out estimated CRD IV ratios as at 30 September 2013, based on Nationwide's current understanding of the regulation and reconciles the accounting capital to both transitional and full impact capital positions as if the financial year ending 4 April 2014 is 'year 1' in the transitional period. Accounting capital consists of the general reserve, revaluation reserve and available for sale reserve as shown on the balance sheet. The table shows how these items are represented for regulatory purposes. The transitional measure is based on the PRA consultation paper CP5/13 which states that there will be no transitional provisions for the deductions from capital. Therefore this column is not directly comparable with Table 3 in Nationwide's 2013 Pillar 3 disclosure, which assumed there would be a transitional approach to these items. Nationwide's actual ratios under CRD IV may differ as further technical standards and policy statements clarify the detailed requirements.

Nationwide's estimated Common Equity Tier 1 capital ratio has increased from 9.1 per cent. on 4 April 2013 to 11.0 per cent. on 30 September 2013. This increase is due to the two factors listed below:

- an increase in Common Equity Tier 1 resources, due to increased reserves and a reduction in the deduction for expected losses less provisions; and

- reduced risk weighted assets, primarily in the specialist lending, commercial and treasury portfolios.

These two factors were partially offset by a change in the capital treatment of securitised assets rated lower than BB-, where from 1 January 2014. Nationwide intends to risk weight these assets at 1,250 per cent. as opposed to deducting them from capital resources. This change is applied in the transitional and fully-loaded Common Equity Tier 1 capital ratios in the CRD IV table below.

The estimated ratios stated above are based on the Society's current understanding of the rules that will apply from 1 January 2014, although these rules are not yet final and may change from those currently understood by the Society. Nationwide's actual ratios under CRD IV may also differ from those shown above and in the table below as further technical standards and policy statements remain to be published.

Common Equity Tier 1	Current rules 30 September 2013	Transitional 30 September 2013	Full impact 30 September 2013	Full impact 4 April 2013
		(£ millions)		
General reserve	**6,842**	6,842	6,842	6,765
Revaluation reserve	**-**	-	68	67
Available for sale reserve	**-**	(163)	(163)	(252)
Regulatory adjustments:				
Prudential valuation adjustment	**-**	(9)	(9)	(13)
Defined benefit pension fund adjustment	**416**	-	-	-
Comon Equity Tier 1 deductions:				
Intangible assets and goodwill	**(916)**	(869)	(869)	(837)
Securitisation positions[1]	**(110)**	-	-	-
Excess of expected losses over impairments	**(381)**	(988)	(988)	(1,130)
Other	**-**	-	-	(12)
Total Common Equity Tier 1 capital	**5,851**	4,813	4,881	4,588
Additional Tier 1				
Permanent interest bearing shares	**631**	631	-	-
Tax in respect of expected losses over impairments	**114**	-	-	-
Total Tier 1 capital	**6,596**	5,444	4,881	4,588
Tier 2				
Revaluation reserves	**68**	-	-	-
Collectively assessed impairment allowances	**29**	36	36	92
Dated subordinated debt	**2,125**	2,125	1,924	1,972
Tier 2 deductions:				
Securitisation deductions	**(110)**	-	-	-
Excess of expected losses over impairments	**(494)**	-	-	-
Total Tier 2 capital	**1,618**	2,161	1,960	2,064
Total capital	**8,214**	7,605	6,841	6,652
Current risk-weighted assets	**41,096**	41,096	41,096	44,440
Additional CRD IV risk-weighted assets		3,135	3,135	5,845
Total risk-weighted assets under CRD IV		44,231	44,231	50,285
Total exposure for leverage ratio	**212,013**	211,449	211,449	207,668
Common Equity Tier 1 ratio	**14.2%**	10.9%	11.0%	9.1%
Leverage ratio	**3.1%**	2.6%	2.3%	2.2%
Leverage ratio with PIBS included[2]			2.6%	2.8%

Notes:

(1) From 1 January 2014, the Society intends to change the treatment of securitised assets rated lower than BB-, which will be risk-weighted as opposed to deducted from capital. This treatment is applied in the transitional and fully-loaded Common Equity Tier 1 capital ratios above and results in a restatement of the leverage ratio to 2.2 per cent. from 2.0 per cent. as at April 2013.

(2) This measure is based on the fully loaded definition of Tier 1 with the exception of Tier 1 instruments which will be ineligible once the transitional phase has elapsed to count in full towards eligible capital (i.e. PIBS are added back into eligible capital).

The table below shows movements in capital since 5 April 2013:

	Group
	(£ millions)
Core Tier 1 capital at 5 April 2013	**5,454**
Profit for the period	234
Other comprehensive expenses recognised directly in the general reserve	(157)
Pension deficit adjustment	153
Intangible assets and goodwill	(22)
Excess of expected loss over impairment	48
Securitisation and other positions	141
Core Tier 1 capital at 30 September 2013	**5,851**
Other Tier 1 capital at 5 April 2013	1,440
Buy back of permanent interest bearing shares	(485)
Fair value adjustments	(188)
Tax on excess of expected loss over impairment	(22)
Other Tier 1 capital at 30 September 2013	**745**
Total Tier 1 capital at 30 September 2013	**6,596**
Tier 2 capital at 5 April 2013	1,602
Amortisation	(53)
Fair value adjustments	(103)
Revaluation reserve	1
Collectively assessed impairment allowances	(41)
Excess of regulatory expected loss over impairment	71
Securitisation and other positions	141
Tier 2 capital at 30 September 2013	**1,618**
Total regulatory capital at 30 September 2013	**8,214**

The growth in Core Tier 1 capital in the six months to 30 September 2013 is due to an increase in profits of £234 million and a decrease in capital deductions. Capital deductions decreased as a result of the sale of securitisation assets and increased commercial provisions which reduced the level of expected loss over impairment deduction. The movement in the general reserve primarily relates to an actuarial reassessment of the defined benefit pension fund which is offset in capital terms by the pension deficit adjustment.

Total capital decreased by £0.3 billion to £8.2 billion at 30 September 2013 (compared to £8.5 billion at 4 April 2013) reflecting the buy-back of £485 million of PIBS in September 2013 which contributes to the decrease in the fair value adjustments of £188 million.

A reconciliation of total assets as disclosed in the balance sheet to the leverage ratio exposure is given in the table below:

	Current rules 30 Sept 2013	Trans-itional 30 Sept 2013	Full impact 30 Sept 2013	Full impact 4 April 2013
	(£ millions)			
Total assets	**193,332**	**193,332**	**193,332**	**190,718**
Mortgage pipeline	5,740	5,740	5,740	4,735
Other committed facilities[(1)]	12,641	12,641	12,641	12,807
Repurchase agreements[(2)]	2,397	2,397	2,397	2,941
Netted derivative adjustment	(804)	(804)	(804)	(1,554)
Common Equity and Tier 1 deductions	(1,293)	(1,857)	(1,857)	(1,979)
Leverage ratio exposure	**212,013**	**211,449**	**211,449**	**207,668**

Notes:

(1) Other committed facilities relates to mortgage overpayments and unsecured, commercial and treasury undrawn lending.

(2) Repurchase agreements includes exposure in relation to Funding for Lending.

PRA 'adjusted' ratios

As part of its assessment of capital adequacy of major banks and building societies (performed at the request of the FPC, with results announced on 20 June 2013), the PRA introduced certain adjustments to the measurement of the Common Equity Tier 1 and leverage ratios. This was for the purposes of measuring firms' positions against a Common Equity Tier 1 ratio target of 7 per cent. and a leverage ratio target of 3 per cent.

For Nationwide the adjustments were:

- A reduction in capital resources of approximately £0.4 billion in respect of estimated future losses on specific loan assets; and

- The imposition of a risk weight floor of 15 per cent. for residential mortgages resulting in an increase in Nationwide's total risk weighted assets by approximately £10.6 billion as at 31 December 2012.

Nationwide is on track to meet the capital expectations that the PRA has set as shown in the table below.

PRA adjustments	**CRD IV 30 September 2013**
	£m
Common Equity Tier 1 capital	**4,881**
PRA adjustment	**(427)**
Adjusted Common Equity Tier 1 capital	**4,454**
Risk-weighted assets	**44,231**
PRA adjustment	**10,602**
Total risk-weighted assets	**54,833**
PRA adjusted Common Equity Tier 1 ratio	**8.1%**
PRA adjusted leverage ratio	**2.1%**

As of 30 September 2013, Nationwide's adjusted Common Equity Tier 1 capital ratio was 8.1 per cent., above the PRA's 7 per cent. target, with an adjusted leverage ratio of 2.1 per cent. Although the PRA risk weighted assets adjustment is set at approximately £10.6 billion, if the 15 per cent. floor was applied as at 30 September 2013, the PRA adjusted Common Equity Tier 1 ratio would have been 7.9 per cent. with the leverage ratio remaining at 2.1 per cent., consistent with the capital plan agreed with the PRA in July 2013. Nationwide's capital plan is founded on organic growth, consistent with the Society's current business model and strategy. The plan does not contemplate, and is not reliant upon, CCDS issuance.

On 2 August 2013, the PRA published consultation paper CP5/13 which consults on the changes required to implement CRD IV, including the new capital buffer framework, changes to Pillar 2 requirements and the decision to not allow transitional provisions for the new deductions from capital required by CRD IV. The changes will be clarified and implemented through a policy statement which is expected to be issued in December 2013. As at 30 September 2013, Nationwide's adjusted Common Equity Tier 1 capital ratio was above the PRA's 7 per cent. target. Based on the Society's current understanding and a prudent assessment of the impact of CP5/13, the Directors expect that Nationwide will continue to meet all regulatory requirements and maintain a robust capital position in manner consistent with the Society's current business model and strategy.

Nationwide issued €1.25 billion of Tier 2 capital in March 2013 both (i) to replenish the reduction in capital resulting from the tender of £350 million PIBS in December 2012 and the call of £200 million subordinated debt in January 2013; and (ii) as part of Nationwide's capital strategy to provide Nationwide with sufficient headroom against expected changes to capital requirements arising from CRD IV.

In common with all European banks, the Society is constantly reviewing the appropriateness of its capital structure. Future decisions with respect to capital calls will be made in light of the then prevailing market, economic and regulatory conditions.

The following table sets out a summary of Nationwide's regulatory capital calculation and its capital adequacy ratios, calculated in accordance with Basel II, as at 30 September 2013 and as at 4 April in each of 2013, 2012 and 2011.

	As at 30 September 2013	As at 4 April 2013	2012	2011
		(£ millions)		
General reserve	6,842	6,765	6,450	6,659
Regulatory adjustments:				
Prudential valuation adjustment(1)	-	-	(1)	-
Defined benefit pension fund adjustment(2)	416	263	383	33
Deductions(3):				
Intangible assets(4)	(904)	(878)	(665)	(513)
Goodwill(4)	(12)	(16)	(16)	(16)
Excess of expected losses over impairment (50%)(5)	(381)	(429)	(57)	(52)
Securitisation positions (50%)	(110)	(245)	(152)	(198)
Other (50%)	—	(6)	(6)	(6)
Core Tier 1 capital	**5,851**	**5,454**	**5,936**	**5,907**
Permanent interest bearing shares(6)	631	1,304	1,625	1,510
Tax in respect of expected loss excess over impairment	114	136	20	18
Total Tier 1 capital	**6,596**	**6,894**	**7,581**	**7,435**
Tier 2				
Dated subordinated debt(6)	2,125	2,281	1,475	1,884
Revaluation reserve	68	67	65	70
Collectively assessed impairment allowances	29	70	110	118
Deductions:				
Excess of expected losses over impairment(5) (50%)	(494)	(565)	(77)	(70)
Securitisation positions (50%)	(110)	(245)	(152)	(198)
Other (50%)	—	(6)	(6)	(6)
Total Tier 2 capital	**1,618**	**1,602**	**1,415**	**1,798**
Total regulatory capital	**8,214**	**8,496**	**8,996**	**9,233**

	As at 30 September 2013	As at 4 April 2013	2012	2011
Key capital ratios(7)**:**		*(per cent.)*		
Core Tier 1	14.2	12.3	12.5	12.5
Tier 1	16.1	15.5	16.0	15.7
Total capital	20.0	19.1	18.9	19.5
Risk weighted assets(8)**:**		*(£ millions)*		
Credit risk:				
Retail mortgages	15,571	16,953	15,958	15,081
Retail unsecured lending	6,659	6,485	5,755	5,283
Commercial loans	12,132	13,643	17,166	17,610
Treasury	1,976	2,526	3,237	3,347
Counterparty credit risk	252	276	395	741
Other	1,101	1,107	1,135	1,105
Total credit risk	**37,691**	**40,990**	**43,646**	**43,167**
Operational risk	3,398	3,398	3,760	4,137
Market risk	7	52	68	72
Total risk weighted assets	**41,096**	**44,440**	**47,474**	**47,376**

Notes

(1) A prudential valuation adjustment has been applied in respect of fair valued instruments as required under regulatory capital rules.

(2) The regulatory capital rules allow the pension fund deficit to be added back to regulatory capital and a deduction taken instead for an estimate of the additional contributions to be made in the next five years, less associated deferred tax.

(3) Certain deductions from capital are required to be allocated to Tier 1 and Tier 2 capital. Deductions are subject to different treatment under IRB in respect of net expected loss over accounting provisions and certain securitisation positions. These are calculated in accordance with PRA guidance.

(4) Intangible assets and goodwill do not qualify as capital for regulatory purposes.

(5) For capital purposes a deduction is made for future expected losses in addition to incurred losses, calculated using IRB guidelines.

(6) PIBS and subordinated debt include fair value adjustments related to changes in market interest rates, adjustments for unamortised premiums and discounts that are included in the consolidated balance sheet, and any amortisation of the capital value of lower Tier 2 instruments required by regulatory rules for instruments with less than five years to maturity.

(7) Capital ratios are calculated as relevant capital divided by risk weighted assets.

(8) The Basel II Pillar 1 capital requirements (risk weights) are calculated using the IRB approach for prime mortgages (other than those originated by the Derbyshire, Cheshire and Dunfermline building societies) and unsecured lending; Foundation IRB for treasury and commercial portfolios (other than sovereign and corporate exposures); and the Standardised approach for all other credit risk exposures, including some treasury and commercial exposures that are exempt from using the IRB approach.

Nationwide uses the IRB approach to calculate its capital requirements for most of its exposure classes and the standardised approach for some other classes. The following table shows the Pillar 1 capital requirement for credit risk at 30 September 2013:

	30 September 2013	**4 April 2013**
	(£ millions)	
Internal Ratings Based (IRB) exposure classes		
Institutions	42	52
Corporates (commercial lending)	937	1,064
Retail mortgages(1)	963	464
Qualifying revolving retail	311	310
Other retail (unsecured loans)	222	208
Securitisation positions	78	112
Non-credit obligation assets (fixed assets and other)	88	89
Counterparty credit risk (derivatives)	20	22
	2,661	**2,321**
Standardised exposure classes		
Central governments & central banks(2)	-	-
Regional governments & local authorities	1	1
Multilateral development banks(2)	-	-
Corporates (non-commercial)	11	14
Retail mortgages (secured against residential property)(1)	253	830
Other retail(3)	-	-
Commercial lending (secured against property)	16	13
Commercial lending (other)	16	12
Past due	48	81
Other	9	7
	354	958
Total	**3,015**	**3,279**

Notes:

(1) During the period, the specialist residential mortgage portfolio was moved from a Standardised basis to IRB; this has resulted in a switch from Standardised risk weightings to IRB risk weightings as shown above.

(2) Nationwide's exposures to central banks and governments and multilateral development banks are zero risk weighted.

(3) The capital requirement for 'Other' retail is immaterial.

PART XVI – SELECTED STATISTICAL INFORMATION

The following information has been extracted from Nationwide's management information systems. This information is unaudited. The information contained in this section should be read in conjunction with the Consolidated Historical Financial Information as well as "*Part XIV: Operating and financial review*".

1. AVERAGE BALANCE SHEETS AND INTEREST RATES

The following tables set out, in accordance with IFRS, the average balances for Nationwide's interest-earning assets and interest-bearing liabilities together with the related interest income and expense amounts, resulting in the presentation of the average yields and rates for the six months ended 30 September 2013 and for each of the financial years ended 4 April 2013, 2012 and 2011, respectively.

	For the six months ended 30 September 2013		
	Average balance(1)	Interest(2)	Average yield/ rate
	(£ millions, except percentages)		
Interest-earning assets:			
Loans to credit institutions	**11,948**	**22**	0.37%
Debt securities and derivative financial instruments(2)	**15,968**	**(6)**	(0.08%)
Loans to customers	**161,848**	**2,565**	3.17%
Total average interest-earning assets	**189,764**	**2,581**	**2.72%**
Non-interest earning assets:			
Tangible fixed assets	**880**		
Fair value adjustment for hedged risk	**552**		
Other financial assets at fair value	**3**		
Other assets	**480**		
Goodwill and intangible fixed assets	**909**		
Investment properties	**8**		
Deferred tax assets	**151**		
Total average assets	**192,747**		
Interest-bearing liabilities:			
Shares held by individuals	129,395	1,181	1.83%
Other deposits	16,574	13	0.16%
Debt securities in issue and derivative financial instruments(2)	34,790	237	1.36%
Subordinated liabilities	2,509	40	3.19%
Tier 1 capital instruments	1,154	18	3.12%
Interest on net defined benefit pension liability	—	8	—
Total average interest-bearing liabilities	**184,422**	**1,497**	**1.62%**
Non-interest-bearing liabilities:			
Other liabilities	**1,514**		
Fair value adjustment for hedged risk	**104**		
Other financial liabilities at fair value	**8**		
Reserves	**6,673**		
Current taxes	**26**		
Total average liabilities	**192,747**		

Notes:

(1) Average balances are based on the balance at the end of each month during the period.

(2) For the purpose of the average balance sheet, the interest income and expense amounts are stated after allocation of interest on financial instruments entered into for hedging purposes.

	For the financial year ended 4 April 2013		
	Average balance[1]	Interest[2]	Average yield/ rate
	(£ millions, except percentages)		
Interest-earning assets:			
Loans to credit institutions	11,205	49	0.44%
Debt securities and derivative financial instruments[2]	21,747	302	1.39%
Loans to customers	157,315	5,044	3.21%
Total average interest-earning assets	**190,267**	**5,395**	**2.84%**
Non-interest-earning assets:			
Tangible fixed assets	948		
Fair value adjustment for hedged risk	1,107		
Other financial assets at fair value	11		
Other assets	539		
Goodwill and intangible fixed assets	757		
Investment properties	9		
Deferred tax assets	244		
Total average assets	**193,882**		
Interest-bearing liabilities:			
Shares held by individuals	125,264	2,741	2.19%
Other deposits	17,090	6	0.04%
Debt securities in issue and derivative financial instruments[2]	40,034	563	1.41%
Subordinated liabilities	1,691	43	2.54%
Tier 1 capital instruments	1,536	38	2.47%
Interest on net defined benefit pension liability	-	23	-
Total average interest-bearing liabilities	**185,615**	**3,414**	**1.84%**
Non-interest-bearing liabilities:			
Other liabilities	1,734		
Fair value adjustment for hedged risk	218		
Other financial liabilities at fair value	1		
Reserves	6,277		
Current taxes	37		
Total average liabilities	**193,882**		

Notes:

(1) Average balances are based on the balance at the end of each month during the financial year.

(2) For the purpose of the average balance sheet, the interest income and expense amounts are stated after allocation of interest on financial instruments entered into for hedging purposes.

	For the financial year ended 4 April 2012		
	Average balance[(1)]	Interest[(2)]	Average yield/ rate
	(£ millions, except percentages)		
Interest-earning assets:			
Loans to credit institutions	11,295	56	0.50%
Debt securities and derivative financial instruments[(2)]	27,924	406	1.45%
Loans to customers	151,998	4,696	3.09%
Total average interest-earning assets	**191,217**	**5,158**	**2.70%**
Non-interest-earning assets:			
Tangible fixed assets	964		
Fair value adjustment for hedged risk	1,594		
Other financial assets at fair value	-		
Other assets	922		
Goodwill and intangible fixed assets	606		
Investment properties	9		
Deferred tax assets	256		
Total average assets	**195,568**		
Interest-bearing liabilities:			
Shares held by individuals	125,456	2,826	2.25%
Other deposits	16,117	14	0.09%
Debt securities in issue and derivative financial instruments[(2)]	42,267	624	1.48%
Subordinated liabilities	1,858	58	3.12%
Tier 1 capital instruments	1,608	42	2.61%
Interest on net defined benefit pension liability	-	4	-
Total average interest-bearing liabilities	**187,306**	**3,568**	**1.90%**
Non-interest-bearing liabilities:			
Other liabilities	1,691		
Fair value adjustment for hedged risk	211		
Other financial liabilities at fair value	-		
Reserves	6,265		
Current taxes	95		
Total average liabilities	**195,568**		

Notes:

(1) Average balances are based on the balance at the end of each month during the financial year.

(2) For the purpose of the average balance sheet, the interest income and expense amounts are stated after allocation of interest on financial instruments entered into for hedging purposes.

	For the financial year ended 4 April 2011		
	Average balance[1]	Interest[2]	Average yield/ rate
	(£ millions, except percentages)		
Interest-earning assets:			
Loans to credit institutions	7,155	32	0.45%
Debt securities and derivative financial instruments[2]	26,671	314	1.18%
Loans to customers	150,825	4,129	2.74%
Total average interest-earning assets	**184,651**	**4,475**	**2.42%**
Non-interest-earning assets:			
Tangible fixed assets	934		
Fair value adjustment for hedged risk	2,257		
Other financial assets at fair value	83		
Other assets	617		
Goodwill and intangible fixed assets	444		
Investment properties	9		
Deferred tax assets	372		
Total average assets	**189,367**		
Interest-bearing liabilities:			
Shares held by individuals	122,259	2,511	2.05%
Other deposits	15,140	(87)	(0.57%)
Debt securities in issue and derivative financial instruments[2]	40,436	427	1.06%
Subordinated liabilities	2,128	50	2.35%
Tier 1 capital instruments	1,556	40	2.57%
Interest on net defined benefit pension liability	-	25	-
Total average interest-bearing liabilities	**181,519**	**2,966**	1.63%
Non-interest-bearing liabilities:			
Other liabilities	1,693		
Fair value adjustment for hedged risk	131		
Other financial liabilities at fair value	-		
Reserves	5,918		
Current taxes	106		
Total average liabilities	**189,367**		

Notes:

(1) Average balances are based on the balance at the end of each month during the financial year.

(2) For the purpose of the average balance sheet, the interest income and expense amounts are stated after allocation of interest on financial instruments entered into for hedging purposes.

2. AVERAGE NET INTEREST MARGIN AND SPREAD

The following tables set out Nationwide's average interest-earning assets, average interest-bearing liabilities and net interest income and illustrate the comparative net interest margin and net interest spread for the six months ended 30 September 2013 and for each of the financial years ended 4 April 2013, 2012 and 2011, respectively.

	For the six months ended 30 September 2013
	(£ millions, except percentages)
Net average interest-earning assets	189,764
Net average interest-bearing liabilities	184,422
Net interest income(1)	1,084
Average yield on average interest earning assets	2.72%
Average rate on average interest-bearing liabilities	1.62%
Net interest spread(2)	1.10%
Net interest margin(3)	1.14%

	For the financial year ended 4 April 2013
	(£ millions, except percentages)
Net average interest-earning assets	190,267
Net average interest-bearing liabilities	185,615
Net interest income(1)	1,981
Average yield on average interest-earning assets	2.84%
Average rate on average interest-bearing liabilities	1.84%
Net interest spread(2)	1.00%
Net interest margin(3)	1.04%

	For the financial year ended 4 April 2012
	(£ millions, except percentages)
Net average interest-earning assets	191,217
Net average interest-bearing liabilities	187,306
Net interest income(1)	1,590
Average yield on average interest-earning assets	2.70%
Average rate on average interest-bearing liabilities	1.90%
Net interest spread(2)	0.80%
Net interest margin(3)	0.83%

	For the financial year ended 4 April 2011
	(£ millions, except percentages)
Net average interest-earning assets	184,651
Net average interest-bearing liabilities	181,519
Net interest income(1)	1,509
Average yield on average interest-earning assets	2.42%
Average rate on average interest-bearing liabilities	1.63%
Net interest spread(2)	0.79%
Net interest margin(3)	0.82%

Notes:

(1) Defined as total interest income less total interest expense.

(2) Defined as the difference between the average yield on interest-earning assets and the average rate on interest-bearing liabilities.

(3) Defined as net interest income divided by average interest-earning assets.

3. CHANGES IN INTEREST INCOME AND EXPENSES – VOLUME AND RATE ANALYSIS

The following tables allocates the changes in Nationwide's interest income and expense between changes in average volume and changes in the average rates for the financial year ended 2013 compared to the financial year ended 2012 and for the financial year ended 2012 compared to the financial year ended 2011, respectively. Nationwide calculates volume and yield/rate variances based on the movements of average balances over the period and changes in average interest yields/rates on interest-earning assets and interest-bearing liabilities. The net change attributable to changes in both volume and rate has been allocated in line with the amounts derived for pure rate and volume variances. The interest on net defined benefit pension liability has been excluded from the table as the assets and liabilities to which it relates are held net on Nationwide's balance sheet. More information on the net pension liability can be found in the Consolidated Historical Financial Information.

	Financial year ended 4 April 2013 compared to financial year ended 4 April 2012		
	Increase/(decrease) in net interest due to changes in:		
	Volume	**Yield/rate**	**Total net change**
		(£ millions)	
Interest income:(1)			
Loans to credit institutions	-	(7)	(7)
Debt securities	(98)	(6)	(104)
Loans to customers	167	181	348
Total interest income	**69**	**168**	**237**
Interest expense:(1)			
UK retail member deposits	(5)	(80)	(85)
Amounts owed to credit institutions	14	(67)	(53)
Amounts owed to other customers	-	45	45
Debt securities in issue	(36)	(25)	(61)
Subordinated liabilities	(5)	(10)	(15)
Subscribed capital	(2)	(2)	(4)
Total interest expense excluding pension cost	**(34)**	**(139)**	**(173)**
Net interest income	**35**	**29**	**64**

Note:

(1) Interest income and expense amounts are stated after allocation of interest on financial instruments entered into for hedging purposes.

	Financial year ended 4 April 2012 compared to financial year ended 4 April 2011		
	Increase/(decrease) in net interest due to changes in:		
	Volume	**Yield/rate**	**Total net change**
		(£ millions)	
Interest income:(1)			
Loans to credit institutions	20	4	24
Debt securities	17	75	92
Loans to customers	32	536	568
Total interest income	**69**	**615**	**684**
Interest expense:(1)			
UK retail member deposits on shares held by individuals	67	249	316
Amounts owed to credit institutions	(14)	(2)	(16)
Amounts owed to other customers	(23)	140	117
Debt securities in issue	27	170	197
Subordinated liabilities	(7)	15	8
Subscribed capital	1	1	2
Total interest expense excluding pension cost	**51**	**573**	**624**
Net interest income	**18**	**42**	**60**

Note:

(1) Interest income and expense amounts are stated after allocation of interest on financial instruments entered into for hedging purposes.

4. INVESTMENT SECURITIES PORTFOLIOS

As at 30 September 2013, Nationwide's investment securities AFS portfolios were carried at a book value of £11.2 billion, representing 6 per cent. of Nationwide's total assets. Investment securities are split into two portfolios with £7.7 billion of the assets in the core liquidity portfolio and £3.6 billion of the assets in the non-core portfolio. Nationwide only purchases investment-grade debt securities and does not operate a trading portfolio. The following table provides information on the breakdown of Nationwide's investment securities as at 30 September 2013 and as at each of 4 April 2013, 4 April 2012 and 4 April 2011, respectively.

	As at 30 September 2013	**As at 4 April**		
		2013	**2012**	**2011**
		(£ millions)		
Investment securities				
UK Government(1)	4,939	5,553	12,796	8,569
Other public sector securities(2)	2,698	3,431	3,750	3,994
Other issuers (listed private sector investment securities) (3)	3,588	4,437	6,779	8,977
Total	**11,225**	**13,421**	**23,325**	**21,540**

Notes:

(1) As at 30 September 2013, UK government securities that Nationwide held were equal to 71 per cent. of Nationwide's general and revaluation reserves compared to 81 per cent. at 4 April 2013, 196 per cent. as at 4 April 2012 and 127 per cent. as at 4 April 2011.

(2) Other public sector securities include securities issued by UK local authorities and sovereign debt backed by foreign (non-UK) governments.

(3) As at 30 September 2013, Nationwide held no securities issued by counterparties where the values of the securities individually exceeded 10 per cent. of its general and revaluation reserves.

The following table sets out the contractual maturity of Nationwide's investment securities held as at 30 September 2013.

	As at 30 September 2013					
	Maturing within 1 year	Maturing after 1 but within 5 years	Maturing after 5 but within 10 years	Maturing after 10 years	Accrued interest	Total
			(£ millions)			
UK Government	62	26	3,750	1,080	21	4,939
Other public sector securities	206	1,032	1,449	—	11	2,698
Other issuers	49	804	788	1,933	14	3,588
Total	**317**	**1,862**	**5,987**	**3,013**	**46**	**11,225**

The following table sets out an analysis of investment securities issued by other issuers and held by Nationwide as at 30 September 2013 and as at 4 April, 2013, 2012 and 2011, respectively:

	As at 30 September 2013	As at 4 April		
		2013	2012	2011
		(£ millions)		
Investment securities – other issuers				
UK financial institutions	35	47	536	410
European financial institutions	398	556	1,045	2,170
Non-European financial institutions	100	148	537	725
Asset backed securities	2,836	3,453	4,338	5,145
Other issuers	219	233	323	527
Total	**3,588**	**4,437**	**6,779**	**8,977**

5. LENDING AND LOAN PORTFOLIOS

As at 30 September 2013, Nationwide's total gross loans and advances to customers and banks (excluding fair value adjustments for portfolio hedged risk, including accrued interest) were £165.4 billion.

The following table sets out the contractual maturity distribution for repayment for Nationwide's total gross loans to customers and banks as at 30 September 2013.

	As at 30 September 2013						
	Due on demand	Due within 3 months	Due in 3 months to 1 year	Due in 1 year to 5 years	Due after 5 years	Impairment provisions in loans and advances	Total[(1)]
				(£ millions)			
Loans to customers	2,139	3,583	5,701	27,025	125,831	(1,370)	162,909
Loans and advances to banks	2,013	72	—	148	304	—	2,537
Total loans	**4,152**	**3,655**	**5,701**	**27,173**	**126,135**	**(1,370)**	**165,446**

Note:

(1) The maturity analysis is produced on the basis that where a loan is repayable by instalments, each instalment is treated as a separate repayment. Loans to customers excludes fair value adjustments for micro-hedged risk.

The following table sets out the fixed and variable rate split of Nationwide's total net loans to customers and banks as at 30 September 2013.

	As at 30 September 2013			
	Fixed rate	Variable rate	Outstanding cheques	Total[1]
	(£ millions)			
Loans to customers	61,778	101,131	—	162,909
Loans to credit institutions	525	2,191	(179)	2,537
Total loans	**62,303**	**103,322**	**(179)**	**165,446**

Note:

(1) Outstanding cheques were issued by Nationwide mostly on behalf of retail customers and had not been presented through the banking system as at 30 September 2013. Loans to customers includes positive fair value adjustments for micro-hedged risk.

As at 30 September 2013, Nationwide's total net loans and advances to customers (including fair value adjustments for micro-hedged risk, including accrued interest) were £163.9 billion, representing 84.8 per cent of Nationwide's total assets. Nationwide's net customer loan portfolio increased by 2.7 per cent. during the six months to 30 September 2013 (from £159.6 billion at 4 April 2013 to £163.9 billion at 30 September 2013), increased by 3.5 per cent. during the financial year ended 4 April 2013 (from £154.2 billion as at 4 April 2012 to £159.6 billion as at 4 April 2013) and increased by 3.2 per cent. during the financial year ended 4 April 2012 (from £149.4 billion as at 4 April 2011 to £154.2 billion as at 4 April 2012). Nationwide's customer lending remains predominantly concentrated on high quality secured products, with residential mortgages accounting for 86 per cent. of Nationwide's total loans and advances to customers at 30 September 2013.

The following table sets out the composition of Nationwide's customer lending as at 30 September 2013 and as 4 April in each of 2013, 2012 and 2011, respectively.

	As at 30 September 2013		As at 4 April					
			2013		2012		2011	
	(£ billions, except percentages of gross balances)							
Prime residential mortgages	115.7	70.4%	110.6	69.4%	105.6	68.7%	104.3	69.7%
Specialist residential mortgages	25.6	15.6%	25.0	15.6%	23.2	15.1%	20.3	13.6%
Total residential mortgages	**141.3**	**86.0%**	**135.6**	**85.0%**	**128.8**	**83.8%**	**124.6**	**83.3%**
Commercial lending	19.1	11.6%	19.9	12.5%	21.5	14.0%	22.0	14.7%
Other lending	0.2	0.1%	0.4	0.3%	0.5	0.3%	0.5	0.3%
Consumer banking	3.7	2.3%	3.5	2.2%	3.0	1.9%	2.5	1.7%
Gross balances	**164.3**	**100.0%**	**159.4**	**100.0%**	**153.8**	**100.0%**	**149.6**	**100.0%**
Impairment provisions	(1.4)		(1.2)		(0.8)		(0.8)	
Fair value adjustments for micro hedged risk	1.0		1.4		1.2		0.6	
Total	**163.9**		**159.6**		**154.2**		**149.4**	

5.1 Residential mortgage portfolio

Prime residential mortgages are all residential mortgage advances (other than specialist residential mortgage advances). Prime residential mortgages are made through Nationwide's branch network and intermediary channels.

Specialist residential mortgages at 30 September 2013 comprise £23.0 billion of advances made through TMW and, in previous years, UCB, and £2.6 billion of advances arising from Nationwide's acquisitions of the Derbyshire, Cheshire and Dunfermline portfolios in prior years. Specialist residential mortgage loans are currently advanced only in the buy to let market. Buy to let mortgages made up 82 per cent. of total specialist lending at 30 September 2013, with self-certification mortgages (12 per cent.), near prime (4 per cent.) and sub-prime (2 per cent. or £0.4 billion) making up the balance of the current portfolio. Nationwide withdrew from the self-certified lending market in 2009 and the near prime and sub-prime portfolios were acquired in the acquisitions described above.

Nationwide focuses on affordability and LTV ratios when underwriting loans. The average LTV of new business originated during the six months ended 30 September 2013 was 69 per cent compared to 67 per cent. for residential mortgages originated during the financial year ended 4 April 2013, 63 per cent. for residential mortgages originated during the financial year ended 4 April 2012 and 66 per cent. for residential mortgages originated during the financial year ended 4 April 2011. The increase in LTVs in the six months to 30 September 2013 was influenced by lending under the Help to Buy scheme whilst the increases in the financial years ended 4 April 2012 and 4 April 2013 reflect the fact that Nationwide increased its proportion of lending to the remortgage market. The average indexed LTV of outstanding mortgages (referred to as "stock" below) at 30 September 2013 was 49 per cent. compared to 51 per cent. at 4 April 2013, 50 per cent. at 4 April 2012 and 49 per cent. at 4 April 2011. In this context, indexation refers to an adjustment of the value of the mortgaged property by reference to movements in house price indices. The fall in the indexed LTV at 30 September 2013 was principally as a result of increasing house prices during the six months to 30 September 2013.

Nationwide increased its gross residential mortgage lending by 37 per cent. to £14.0 billion in the six months ended 30 September 2013 compared to £21.5 billion in the financial year ended 4 April 2013, £18.4 billion in the financial year ended 4 April 2012 and £12.8 billion in the financial year ended 4 April 2011. Nationwide's net mortgage lending (being gross mortgage lending less mortgage loans repaid during the relevant financial year) was £5.6 billion in the six months ended 30 September 2013 compared to £6.5 billion in the financial year ended 4 April 2013, £2.7 billion in the financial year ended 4 April 2012 and negative £3.5 billion in the financial year ended 4 April 2011.

Nationwide is an important provider of high quality loans to the buy to let sector. Nationwide's gross advances of buy to let mortgages were £1.7 billion in the six months ended 30 September 2013 compared to £3.3 billion in the financial year ended 4 April 2013, £4.4 billion in the financial year ended 4 April 2012 and £3.0 billion in the financial year ended 4 April 2011, taking Nationwide's specialist lending book to £25.6 billion at 30 September 2013.

The following table sets out an LTV analysis (calculated on a volume basis) of Nationwide's residential mortgage portfolio at 30 September 2013 and at 4 April in each of 2013, 2012 and 2011 as well as the LTV profile for new business originated in the six months to 30 September 2013 and in each of the financial years ended 4 April 2013, 2012 and 2011, respectively. The analysis of the new business profile and average LTV of new business shown in the table exclude further advances.

	As at 30 September 2013	As at 4 April		
		2013	2012	2011
	(per cent.)			
LTV for total portfolio of residential mortgages volume:				
<50%	48	47	50	52
50% - 60%	11	10	10	9
60% - 70%	14	12	11	11
70% - 80%	16	15	13	11
80% - 90%	8	11	10	10
90% - 100%	2	4	4	5
> 100%	1	1	2	2
	100	**100**	**100**	**100**
Average LTV of stock (indexed)	49	51	50	49
Average LTV of new business	69	67	63	66
Profile for new business originated in the period				
First-time buyers	30	27	17	23
Home movers	28	29	25	34
Remortgagers	26	23	27	12
Buy to let	16	21	31	31
	100	**100**	**100**	**100**

The following table sets out the arrears for Nationwide's total residential mortgage portfolio (being cases three months or more in arrears expressed as a percentage of Nationwide's total residential mortgage loans) together with CML industry average residential mortgage arrears as at 30 September 2013 and at 4 April in each of 2013, 2012 and 2011.

	As at 30 September 2013	As at 4 April		
		2013	2012	2011
	(per cent.)			
Prime	0.51	0.53	0.54	0.54
Specialist	1.73	1.75	1.87	2.47
Total Nationwide residential mortgages	**0.70**	**0.72**	**0.73**	**0.77**
CML industry average	**1.75**	**1.89**	**1.95**	**2.09**

The table illustrates that arrears on Nationwide's prime lending remained stable across all periods, whilst there has been a reduction in specialist arrears as a result of reducing arrears volumes and strong loan growth in TMW. Nationwide's arrears performance remains strong relative to the CML industry average of 1.75 at 30 September 2013, and Nationwide's specialist lending arrears at 30 September 2013 were below the overall industry measure that is inclusive of prime lending.

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

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

The number of properties in possession at 30 September 2013 was 444 representing 0.03 per cent. of Nationwide's total residential mortgaged properties, which compares well with the industry measure of 0.09 per cent. quoted by CML as at 30 September 2013.

The following table sets out details of Nationwide's properties in possession (being the number of properties in possession expressed as a percentage of Nationwide's total residential mortgaged properties) as at 30 September 2013 and at 4 April in each of 2013, 2012 and 2011.

	As at 30 September 2013	As at 4 April		
		2013	2012	2011
		(*per cent.*)		
Prime	0.02	0.02	0.02	0.03
Specialist	0.11	0.18	0.40	0.38
Total Nationwide residential mortgages	**0.03**	**0.04**	**0.08**	**0.07**

Nationwide's approach to dealing with customers in financial difficulties combined with its historically cautious approach to lending, means that it only takes possession of residential properties as a last resort. This is illustrated by the number of residential properties taken into possession by Nationwide compared with the total for the industry as a whole.

The following tables set out further information on Nationwide's residential mortgage loan and consumer banking portfolios by payment due status as at 30 September 2013 and as at 4 April in each of 2013, 2012 and 2011.

	As at 30 September 2013				
	Prime lending	Specialist lending	Consumer banking	Total	
	(*£ billions, except percentages*)				
Neither past due nor impaired	113.3	23.8	3.4	**140.5**	**97%**
Past due up to 3 months but not impaired	1.8	1.1	0.1	**3.0**	**2%**
Impaired	0.6	0.7	0.1	**1.4**	**1%**
Total	**115.7**	**25.6**	**3.6**	**144.9**	**100%**

	As at 4 April 2013				
	Prime lending	Specialist lending	Consumer banking	Total	
	(*£ billions, except percentages*)				
Neither past due nor impaired	108.2	23.1	3.4	**134.7**	**97%**
Past due up to 3 months but not impaired	1.8	1.2	—	**3.0**	**2%**
Impaired	0.6	0.7	0.1	**1.4**	**1%**
Total	**110.6**	**25.0**	**3.5**	**139.1**	**100%**

	As at 4 April 2012				
	Prime lending	**Specialist lending**	**Consumer banking**	**Total**	
	(£ billions, except percentages)				
Neither past due nor impaired	103.1	21.3	2.9	**127.3**	**97%**
Past due up to 3 months but not impaired	1.9	1.2	0.0	**3.1**	**2%**
Impaired	0.6	0.7	0.1	**1.4**	**1%**
Total	**105.6**	**23.2**	**3.0**	**131.8**	**100%**

	As at 4 April 2011				
	Prime lending	**Specialist lending**	**Consumer banking**	**Total**	
	(£ billions, except percentages)				
Neither past due nor impaired	101.8	18.2	2.3	**122.3**	**96%**
Past due up to 3 months but not impaired	1.9	1.4	0.0	**3.3**	**3%**
Impaired	0.6	0.8	0.1	**1.5**	**1%**
Total	**104.3**	**20.4**	**2.4**	**127.1**	**100%**

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

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

The following tables set out the status of Nationwide's impaired residential mortgage loans and consumer banking loans as at 30 September 2013 and as at 4 April in each of 2013, 2012 and 2011.

	As at 30 September 2013				
	Prime lending	**Specialist lending**	**Consumer banking**	**Total**	
	(£ millions, except percentages)				
Impaired status:					
Past due 3 to 6 months	242	290	84	**616**	**45%**
Past due 6 to 12 months	186	206	45	**437**	**32%**
Past due over 12 months	103	143	—	**246**	**18%**
Possessions	17	57	—	**74**	**5%**
Total	**548**	**696**	**129**	**1,373**	**100%**

	As at 4 April 2013				
	Prime lending	**Specialist lending**	**Consumer banking**	**Total**	
	(£ millions, except percentages)				
Impaired status:					
Past due 3 to 6 months	260	297	41	**598**	**44%**
Past due 6 to 12 months	190	208	24	**422**	**31%**
Past due over 12 months	96	134	-	**230**	**17%**
Possessions	18	87	-	**105**	**8%**
Total	**564**	**726**	**65**	**1,355**	**100%**

	As at 4 April 2012				
	Prime lending	Specialist lending	Consumer banking	Total	
	(£ millions, except percentages)				
Impaired status:					
Past due 3 to 6 months	268	279	37	**584**	**41%**
Past due 6 to 12 months	184	200	23	**407**	**29%**
Past due over 12 months	85	138	-	**223**	**16%**
Possessions	30	167	-	**197**	**14%**
Total	**567**	**784**	**60**	**1,411**	**100%**

	As at 4 April 2011				
	Prime lending	Specialist lending	Consumer banking	Total	
	(£ millions, except percentages)				
Impaired status:					
Past due 3 to 6 months	271	290	50	**611**	**41%**
Past due 6 to 12 months	187	228	44	**459**	**30%**
Past due over 12 months	81	185	-	**266**	**18%**
Possessions	33	130	-	**163**	**11%**
Total	**572**	**833**	**94**	**1,499**	**100%**

Possession balances represent loans against which Nationwide has taken ownership of properties pending their sale. Possession is only enforced once all other recovery options have been exhausted and this is reflected in Nationwide's possession rate which is approximately one third of the market average.

The Group offers a number of support options to both secured and unsecured customers. The credit policies and provisioning treatment relating to these activities were proactively reviewed during the financial year ended 4 April 2013 to ensure that they continued to reflect good practice as defined by the FCA. The options offered may be classified into three categories:

- change in terms;
- forbearance; and
- repair.

Change in terms

Changes in terms relate to a concession or permanent change, which results in amended monthly cash flows. The options available include:

- payment holidays; and
- term extensions.

In addition, interest only conversions were available prior to March 2012.

Payment holidays

Performing customers with loans on standard terms and conditions effective before March 2010, who are not experiencing financial difficulty and meet required criteria (including credit score), are permitted to apply for a payment holiday and make reduced or no payments for an agreed period of time of up to 12 months (depending on reason). As at 30 September 2013, 1,149 accounts were subject to a payment holiday compared to 1,306 accounts as at 4 April 2013, 1,848 accounts as at 4 April 2012 and 2,313 accounts as at 4 April 2011. The performance of customers who have taken a payment holiday is reflected within Nationwide's provisioning methodology.

Term extensions

Nationwide allows performing customers to apply to extend the term of their mortgage. During the six months ended 30 September 2013, 9,962 accounts extended their term compared to 17,290 accounts in the financial year ended 4 April 2013, 15,032 accounts in the financial year ended 4 April 2012 and 13,964 accounts in the financial year ended 4 April 2011. The performance of term extensions is in line with that of the wider portfolio and therefore no adjustment is made to Nationwide's provisioning methodology for these loans.

Interest only conversions

Interest only conversions allow performing customers meeting required criteria to apply for an interest only conversion, normally reducing their monthly commitment. Following tightening of Nationwide's policy in relation to interest only conversions in the financial year ended 4 April 2012, the facility was completely withdrawn in March 2012. The performance of interest only conversions is in line with that of the wider portfolio and therefore no adjustment is made to Nationwide's provisioning methodology for these loans.

Forbearance

The only forbearance option which Nationwide offers customers in financial distress is an interest only concession. Interest only concessions are offered to customers on a temporary basis with formal periodic review subject to an affordability assessment. The concession allows the customer to reduce monthly payments to cover interest only, typically for six months, and, if made, the arrears status of the account remains as at the beginning of the concession.

As at 30 September 2013, 1,673 accounts representing 0.13 per cent. of total prime mortgage balances were on this concession compared to 1,913 accounts representing 0.16 per cent. of total prime mortgage balances as at 4 April 2013, 2,474 accounts representing 0.2 per cent. of total prime mortgage balances as at 4 April 2012 and 2,802 accounts representing 0.3 per cent. of total prime mortgage balances as at 4 April 2011. Nationwide's provisioning methodology reflects the latest performance on these accounts.

Repair

When a customer emerges from financial difficulty, Nationwide offers the ability to capitalise arrears, resulting in the account being repaired. Customers are only permitted to capitalise arrears where they have demonstrated their ability to meet a repayment schedule at normal commercial terms for a continuous six month period, or if they are able to overpay such that six months' payments are made in a four month period. During the six months ended 30 September 2013, 26 accounts had an arrears capitalisation compared to 187 accounts in the financial year ended 4 April 2013, 546 accounts in the financial year ended 4 April 2012 and 785 accounts in the financial year ended 4 April 2011. Once capitalised, the loans are categorised as not impaired as long as contractual repayments are maintained. Capitalised accounts have a higher than average propensity to roll into arrears and this is recognised within Nationwide's provisioning methodology.

Customers who are unable to repay their capital at term expiry may be offered a term extension. These extensions are typically on a capital and interest basis over a relatively short-term, normally less than five years, and aim to recover the outstanding balance as quickly as possible whilst ensuring that the monthly payment remains manageable to the customer. During the six months ended 30 September 2013, 964 accounts had an extension at term expiry compared to 1,794 accounts in the financial year ended 4 April 2013, 2,417 accounts in the financial year ended 4 April 2012 and 1,739 accounts in the financial year ended 4 April 2011. No provisioning methodology adjustment is made for these accounts as a result of the low balance and LTV profile.

The options outlined above apply predominantly to the prime residential mortgage portfolio. The tables below show outstanding loans at 30 September 2013 and at 4 April 2013 and 4 April 2012 that have been subject to forbearance at some point, although the categories listed are not mutually exclusive and the same loan may appear in more than one category.

	As at 30 September 2013	
	(£ millions)	*(% of total prime loans and advances)*
Change in terms	19,494	17%
Forbearance	1,548	1%
Repair	466	—

	As at April 4			
	2013		2012	
	(£ millions)	*(% of total prime loans and advances)*	*(£ millions)*	*(% of total prime loans and advances)*
Change in terms	19,830	18%	20,048	19%
Forbearance	1,536	1%	1,441	1%
Repair	519	—	504	—

The following tables set out the collateral held by Nationwide against its past due or impaired retail residential mortgages as at 30 September 2013 and at 4 April in each of 2013, 2012 and 2011. The percentage columns indicate the cover over the impaired asset.

	As at 30 September 2013				As at 4 April 2013			
	Prime lending		Specialist lending		Prime lending		Specialist lending	
	(£ millions, except percentages)							
Past due but not impaired	1,833	100%	1,090	99%	1,827	100%	1,141	99%
Impaired	528	99%	620	97%	541	99%	618	97%
Possessions	16	97%	46	80%	17	94%	72	83%
Total	**2,377**	**100%**	**1,756**	**98%**	**2,385**	**100%**	**1,831**	**97%**

	As at 4 April 2012				As at 4 April 2011			
	Prime lending		Specialist lending		Prime lending		Specialist lending	
	(£ millions, except percentages)							
Past due but not impaired	1,867	100%	1,172	99%	1,928	100%	1,334	99%
Impaired	532	99%	595	96%	535	99%	676	96%
Possessions	29	96%	138	83%	31	94%	116	89%
Total	**2,428**	**100%**	**1,905**	**97%**	**2,494**	**100%**	**2,126**	**97%**

Collateral held in relation to secured loans that are either past due or impaired is capped at the amount outstanding on an individual loan basis (that is, any excess cover on one loan is not used to offset against other loans with less than 100 per cent. cover reflecting the fact that any surplus value accrues to the borrower and not to Nationwide).

The following tables set out the aggregate negative equity on retail residential mortgages (determined as the difference between the principal amount of the mortgage outstanding and the value of the property mortgaged to Nationwide in cases where the mortgage amount outstanding is higher than the value of the property mortgaged) as at 30 September 2013 and as at 4 April in each of 2013, 2012 and 2011.

	As at 30 September 2013		As at 4 April 2013	
	Prime lending	**Specialist lending**	**Prime lending**	**Specialist lending**
		(£ millions)		
Past due but not impaired	3	10	5	13
Impaired	3	19	5	21
Possessions	1	11	1	15
Total	7	40	**11**	**49**

	As at 4 April 2012		As at 4 April 2011	
	Prime lending	**Specialist lending**	**Prime lending**	**Specialist lending**
		(£ millions)		
Past due but not impaired	6	17	6	14
Impaired	5	22	4	27
Possessions	1	29	2	14
Total	12	68	**12**	**55**

Commercial and other operations loan portfolio

Commercial lending comprises Property Finance Loans, RSL Loans and PFI Loans. Other lending comprises a secured European commercial loan portfolio and a loan secured by a senior asset backed securities (**ABS**) reference portfolio and, until recently, an unsecured student loan portfolio. These investments were acquired by the Treasury Division and are therefore held within the Head Office Functions segment.

Nationwide's commercial lending portfolio was £19.1 billion as at 30 September 2013 compared to £19.9 billion at 4 April 2013, £21.5 billion as at 4 April 2012 and £22.0 billion at 4 April 2011. As at 30 September 2013, the portfolio comprised £9.5 billion of Property Finance Loans, £8.1 billion of RSL Loans and £1.5 billion of PFI Loans.

Other lending as at 30 September 2013 included secured lending of £209 million (4 April 2013: £219 million, 4 April 2012: £262 million and 4 April 2011: £241 million) relating to a European commercial loan portfolio and a loan secured by a senior ABS reference portfolio. Nationwide's unsecured lending in relation to a student loan portfolio (4 April 2013: £217 million, 4 April 2012: £231 million and 4 April 2011: £251 million) was sold on 24 April 2013.

Nationwide's Property Finance portfolio is diverse both in terms of sectors and geographic spread and is considered to have a low risk profile within the industry, with no equity or house builder exposure. Nationwide's exposure to Property Finance at 30 September 2013 was 30 per cent. lower than the £13.7 billion peak in 2009, with a 14 per cent. reduction in its exposure over the 12 months to 30 September 2013. This reflects both scheduled repayments and Nationwide's active management of its portfolio. Nationwide uses a range of options to reduce its exposure, including equity injections, restructures with increased amortisation and seeking redemption in full for maturing loans. Refinancing and longer-term asset management plans are used where necessary and appropriate, for example where loans are supported by better quality properties.

Following completion and letting of properties in relation to two large residual development finance loans, Nationwide now has only modest exposure to development finance. The direct non-UK element of Nationwide's commercial real estate portfolio, amounting to £0.9 billion as at 30 September 2013 and £1.0 billion as at 4 April 2013 and 4 April 2012, is principally in Germany with only a single exposure to Ireland and no exposure to Greece, Italy, Portugal or Spain.

The portfolio is actively monitored for evidence of impairment by reference to a range of factors which include significant financial difficulty of the borrower, payment default, granting of a concession in accordance with Nationwide's forbearance policies or other circumstances indicating the likelihood of a material change in cash flow expectations. Impaired commercial loans at 30 September 2013 amounted to £3,210 million (compared to £2,715 million at 4 April 2013 and £1,758 million at 4 April 2012) and provisions held against the portfolio amounted to £1,103 million (compared to £958 million at 4 April 2013 and £547 million at 4 April 2012) representing a coverage ratio of 34 per cent. (4 April 2013: 35 per cent. and 4 April 2012: 31 per cent.).

Robust arrears management continues to focus on close and proactive management of arrears and loan maturities and there are currently no arrears of three months or more on the RSL or PFI portfolios.

Economic uncertainty, ongoing funding pressures across the banking sector and a trend towards higher regulatory capital requirements for commercial real estate lending have significantly reduced the availability of credit for refinance within the sector. Furthermore, current depressed property values mean that foreclosure on loans which are operating outside the original terms of their advance is unlikely to provide the best economic outcome, except in those cases where ongoing serviceability is unachievable and/or the prospects of any recovery in cash flow performance or capital value is unlikely. Nationwide's strategy remains one of prudent loss mitigation over the medium-term in what is a cyclical market. Nationwide makes refinance available for existing Property Finance exposures where it is satisfied that it continues to have a constructive relationship with the borrower which recognises Nationwide's interests and can achieve a level of expected return which reflects current funding costs or where there is a realistic likelihood that recovery over the medium-term in the hands of the borrower represents a better prospect than short-term disposal. To the extent this strategy leads to forbearance on loans which are renewed at off-market interest rates or where the most likely outcome remains an ultimate financial loss, impairment provisions are recognised in accordance with relevant accounting requirements.

The following tables set out the payment status of Nationwide's commercial and other lending operations as at 30 September 2013 and as at 4 April in each 2013, 2012 and 2011.

	As at 30 September 2013				As at 4 April 2013			
	Commercial		Other operations		Commercial		Other operations	
	(£ billions, except percentages)							
Neither past due nor impaired	15.6	82%	0.2	87%	16.6	83%	0.4	91%
Past due up to 3 months but not impaired	0.3	1%	—	4%	0.6	3%	0.0	1%
Impaired	3.2	17%	—	9%	2.7	14%	0.0	8%
Total	**19.1**	**100%**	**0.2**	**100%**	**19.9**	**100%**	**0.4**	**100%**

	As at 4 April 2012				As at 4 April 2011			
	Commercial		Other operations		Commercial		Other operations	
	(£ billions, except percentages)							
Neither past due nor impaired	19.1	89%	0.4	91%	20.2	92%	0.4	89%
Past due up to 3 months but not impaired	0.7	3%	—	1%	0.4	2%	—	1%
Impaired	1.7	8%	0.1	8%	1.4	6%	0.1	10%
Total	**21.5**	**100%**	**0.5**	**100%**	**22.0**	**100%**	**0.5**	**100%**

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

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

Impaired balances in other operations as at 30 September 2013 amounted to £18 million which related to Nationwide's secured European commercial loan portfolio. Impaired balances in other operations as at 4 April 2013 amounted to £33 million and comprised £27 million relating to Nationwide's secured European commercial loan portfolio and £6 million relating to its unsecured student loan portfolio which was sold on 24 April 2013. Impaired balances in other operations as at 4 April 2012 amounted to £41 million and comprised £30 million relating to Nationwide's secured European commercial loan portfolio and £11 million relating to its unsecured student loan portfolio. As at 4 April 2011, impaired balances amounted to £52 million and comprised £41 million relating to the European commercial loan portfolio and £11 million relating to the student loan portfolio.

The following table sets out a further analysis of Nationwide's impaired commercial lending and other operations assets as at 30 September 2013 and as at 4 April in each of 2013, 2012 and 2011.

	As at 30 September 2013				As at 4 April 2013			
	Commercial		Other operations		Commercial		Other operations	
	(£ millions, except percentages)							
Past due 0 to 3 months	1,899	59%	—	—%	1,581	58%	—	—
Past due 3 to 6 months	361	11%	—	—%	218	8%	1	3%
Past due 6 to 12 months	235	8%	2	11%	295	11%	2	6%
Past due over 12 months	712	22%	16	89%	620	23%	30	91%
Possessions	3	—	—	—%	1	—	—	—
Total	**3,210**	100%	**18**	**100%**	**2,715**	**100%**	**33**	**100%**

	As at 4 April 2012				As at 4 April 2011			
	Commercial		Other operations		Commercial		Other operations	
	(£ millions, except percentages)							
Past due 0 to 3 months	836	47%	—	—	695	49%	—	—
Past due 3 to 6 months	139	8%	1	2%	111	8%	4	8%
Past due 6 to 12 months	295	17%	2	5%	235	16%	8	15%
Past due over 12 months	487	28%	38	93%	378	27%	40	77%
Possessions	1	—	—	—	1	—	—	—
Total	**1,758**	**100%**	**41**	**100%**	**1,420**	**100%**	**52**	**100%**

Commercial assets totalling £3,097 million as at 30 September 2013 (compared to £2,629 million as at 4 April 2013, £1,450 million as at 4 April 2012 and £1,152 million as at 4 April 2011) have individual provisions against them. Possession balances represent loans against which Nationwide has taken ownership of properties pending their sale. Assets over which possession has been taken are realised in an orderly manner through open market or auction sales to derive the maximum benefit for all interested parties, and any surplus proceeds are distributed in accordance with applicable insolvency regulations. Nationwide does not normally occupy repossessed properties for its business use or use assets obtained in its operations.

The following table sets out collateral held by Nationwide against past due or impaired commercial loans as at 30 September 2013 and as at 4 April in each of 2013, 2012 and 2011. The percentages in the table represent the cover over the impaired asset.

	As at 30 September 2013		As at 4 April					
			2013		2012		2011	
	(£ millions, except percentages)							
Past due but not impaired	268	99%	623	97%	631	94%	363	93%
Impaired	2,296	72%	1,743	64%	1,157	66%	1,050	74%
Total	**2,564**	**74%**	**2,366**	**70%**	**1,788**	**74%**	**1,413**	**78%**

Collateral held in relation to secured loans that are either past due or impaired is capped at the amount outstanding on an individual borrower basis (that is, any excess cover from one borrower is not used to offset against other borrowers with less than 100 per cent. cover reflecting the fact that any surplus value accrues to the borrower and not to Nationwide).

Negative equity on commercial lending

The following table sets out the aggregate negative equity (determined as the difference between the principal amount of the loan outstanding and the value of the property mortgaged to Nationwide in cases where the mortgage amount outstanding is higher than the value of the property mortgaged) on Nationwide's commercial and other operations loans as at 30 September 2013 and as at 4 April in each of 2013, 2012 and 2011.

	As at 30 September 2013	As at 4 April		
		2013	2012	2011
		(£ millions)		
Past due but not impaired	3	21	38	28
Impaired	913	972	600	369
Possessions	2	1	–	1
Total	**918**	**994**	**638**	**398**

Consumer banking

The following table sets out an arrears analysis (relating to accounts more than 30 days in arrears) of Nationwide's consumer loans by type as at 30 September 2013 and as at 4 April in each of 2013, 2012 and 2011.

	As at 30 September 2013	As at 4 April		
		2013	2012	2011
		(per cent.)		
FlexAccount overdrafts	17	10	9	10
Personal loans	4	3	3	5
Credit cards	5	3	3	4

During the six months to 30 September 2013, Nationwide updated its provisioning assumptions for unsecured products to reflect the level of recoveries expected on balances based on recent past experience. The increases in the percentages shown above at 30 September 2013 reflect this update and underlying growth in the respective products.

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

5.2 Loan loss experience

Nationwide assesses at each balance sheet date whether, as a result of one or more events that occurred after initial recognition, there is objective evidence that a financial asset or group of financial assets is impaired. Evidence of impairment may include indications that the borrower or group of borrowers are experiencing significant financial difficulty, default or delinquency in interest or principal payments or the debt being restructured to reduce the burden on the borrower.

Nationwide first assesses whether objective evidence of impairment exists either individually for assets that are separately significant or collectively for assets that are not separately significant. If there is no objective evidence of impairment for an individually assessed asset it is included in a group of assets with similar credit risk characteristics and collectively assessed for impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. The resultant provisions are deducted from the appropriate asset values in the balance sheet. The methodology and assumptions used for estimating future cash flows are reviewed regularly by Nationwide to reduce any differences between loss estimates and actual loss experience.

The following tables set out the movement in Nationwide's impairment provisions on loans and advances to customers for the six months ended 30 September 2013 and for each of the financial years ended 4 April 2013, 2012 and 2011, respectively.

	Prime residential	Specialist residential	Consumer banking	Commercial lending	Other lending	Total
			(£ millions)			
As at 4 April 2013	32	133	87	958	14	1,224
Charge for the period	(2)	10	16	225	4	253
Amounts written off during the period	(6)	(36)	—	(56)	(10)	(108)
Amounts recovered during the period	1	4	22	5	—	32
Unwind of discount of provision	—	—	(2)	(29)	—	(31)
As at 30 September 2013	**25**	**111**	**123**	**1,103**	**8**	**1,370**

	Prime residential	Specialist residential	Consumer banking	Commercial lending	Other lending	Total
			(£ millions)			
As at 5 April 2012	40	162	80	547	14	843
Charge for the year	(6)	22	79	493	1	589
Amounts written off during the year	(9)	(87)	(100)	(130)	(3)	(329)
Amounts recovered during the year	1	4	30	2	2	39
Adjustments	7	35	—	86	—	128
Unwind of discount of provision	(1)	(3)	(2)	(40)	—	(46)
As at 4 April 2013	**32**	**133**	**87**	**958**	**14**	**1,224**

	Prime residential	Specialist residential	Consumer banking	Commercial lending	Other lending	Total
			(£ millions)			
As at 5 April 2011	40	161	90	463	11	765
Charge for the year	13	57	69	247	4	390
Amounts written off during the year	(13)	(55)	(104)	(135)	(3)	(310)
Amounts recovered during the year	1	2	27	1	2	33
Unwind of discount of provision	(1)	(3)	(2)	(29)	-	(35)
As at 4 April 2012	**40**	**162**	**80**	**547**	**14**	**843**

	Prime residential	Specialist residential	Consumer banking	Commercial lending	Other lending	Total
			(£ millions)			
As at 5 April 2010	17	143	148	422	20	750
Charge for the year	32	69	83	175	-	359
Amounts written off during the year	(9)	(51)	(156)	(105)	(13)	(334)
Amounts recovered during the year	1	3	20	-	4	28
Unwind of discount of provision	(1)	(3)	(5)	(29)	-	(38)
As at 4 April 2011	**40**	**161**	**90**	**463**	**11**	**765**

The following table sets out Nationwide's allowances for loan losses as a percentage of total loans, analysed by category, as at 30 September 2013 and as at 4 April in each of 2013, 2012 and 2011.

	As at 30 September 2013	As at 4 April,		
		2013	2012	2011
		(per cent.)		
Total allowances as a percentage of total loans				
Residential	0.10	0.12	0.16	0.16
Commercial	5.76	4.81	2.54	2.10
Consumer	3.38	2.49	2.70	3.65
Other	3.83	3.21	2.84	2.24
Total loans	**0.83**	**0.77**	**0.55**	**0.51**
Percentage of loans in each category to total loans				
Residential	86.6	85.5	84.1	83.6
Commercial	11.1	12.0	13.7	14.5
Consumer	2.2	2.2	1.9	1.6
Other	0.1	0.3	0.3	0.3
Total loans	**100.0**	**100.0**	**100.0**	**100.0**

6. COUNTRY EXPOSURES

The following tables set out Nationwide's direct exposure to the GIIPS countries as at 30 September 2013 and as at 4 April in each of 2013, 2012 and 2011. These exposures are all shown at their balance sheet carrying values.

	As at 30 September 2013					
	Greece	Ireland	Italy	Portugal	Spain	Total
			(£ millions)			
Mortgage backed securities	—	13	82	47	308	**450**
Covered bonds	—	40	—	22	279	**341**
Senior debt	—	—	—	—	—	**—**
Other assets	—	—	2	—	—	**2**
Other corporate	—	8	3	—	1	**12**
Total	**—**	**61**	**87**	**69**	**588**	**805**

	As at 4 April 2013					
	Greece	Ireland	Italy	Portugal	Spain	Total
			(£ millions)			
Mortgage backed securities	—	144	90	50	335	**619**
Covered bonds	—	71	—	22	326	**419**
Senior debt	—	—	25	—	17	**42**
Other assets	—	—	3	—	2	**5**
Other corporate	—	11	3	—	—	**14**
Total	**—**	**226**	**121**	**72**(1)	**680**	**1,099**

Note:
(1) The increase from 4 April 2012 reflects the impact of fair valuation.

	As at 4 April 2012					
	Greece	**Ireland**	**Italy**	**Portugal**	**Spain**	**Total**
			(£ millions)			
Mortgage backed securities	—	134	105	39	348	**626**
Covered bonds	—	71	—	17	334	**422**
Senior debt	—	31	36	—	96	**163**
Other assets	1	—	6	—	4	**11**
Other corporate	—	8	3	—	—	**11**
Total	**1**	**244**	**150**	**56**	**782**	**1,233**

	As at 4 April 2011					
	Greece	**Ireland**	**Italy**	**Portugal**	**Spain**	**Total**
			(£ millions)			
Mortgage backed securities	—	155	149	64	442	**810**
Covered bonds	—	63	-	19	373	**455**
Senior debt	—	98	117	63	485	**763**
Subordinated bonds	—	—	11	17	—	**28**
Other assets	3	—	12	—	6	**21**
Other corporate	—	8	4	—	2	**14**
Total	**3**	**324**	**293**	**163**	**1,308**	**2,091**

Movements in Nationwide's exposure to the GIIPS countries since 30 September 2013 relate to disposals, maturities and fair value movements, and there has been no new investment since 4 April 2013.

Nationwide has further indirect exposure to GIIPS countries as a result of a €100 million loan to a Luxembourg special purpose vehicle, which has first loss exposure to a €1.6 billion portfolio of senior ranking European ABS assets. The sterling equivalent of this exposure at 30 September 2013 was £83.7 million. The geographical breakdown of this portfolio at 30 September 2013 was as follows: UK 56 per cent., Spain 14 per cent., Germany 10 per cent., Italy 7 per cent., The Netherlands 7 per cent., Greece 4 per cent. and Portugal 2 per cent.

In addition, the following tables set out Nationwide's exposure in respect of other countries (apart from the UK) at 30 September 2013 and at 4 April in each of 2013, 2012 and 2011. These exposures are all shown at their balance sheet carrying values.

	As at 30 September 2013						
	Finland	**France**	**Germany**	**Netherlands**	**USA**	**Other[(1)]**	**Total**
				(£ millions)			
Government bonds	169	—	476	758	532	—	1,935
Mortgage backed securities	—	25	61	198	118	72	474
Covered bonds	—	—	86	18	27	15	146
Senior debt	21	—	—	49	18	48	136
Loans to banks	—	111	97	—	420	357	985
Other assets	—	103	43	—	876	775	1,797
Other corporate	10	33	752	38	—	3	836
Total	**200**	**272**	**1,515**	**1,061**	**1,991**	**1,270**	**6,309**

	As at 4 April 2013						
	Finland	France	Germany	Netherlands	USA	Other(2)	Total
	(£ millions)						
Government bonds	133	—	505	1,039	672	—	**2,349**
Mortgage backed securities	—	28	116	273	147	86	**650**
Covered bonds	21	—	89	18	29	21	**178**
Senior debt	21	33	—	50	57	51	**212**
Loans and advances to banks	—	164	130	—	460	620	**1,374**
Other assets	—	109	—	—	1,085	1,001	**2,195**
Other corporate	10	44	840	16	—	—	**910**
Total	**185**	**378**	**1,680**	**1,396**	**2,450**	**1,779**	**7,868**

	As at 4 April 2012						
	Belgium	France	Germany	Netherlands	USA	Other(3)	Total
	(£ millions)						
Government bonds	—	—	169	1,049	1,104	75	**2,397**
Mortgage backed securities	41	34	114	239	110	147	**685**
Covered bonds	—	—-	84	45	26	82	**237**
Senior debt	3	118	100	125	205	332	**883**
Loans and advances to banks	—	127	41	—	490	766	**1,424**
Other assets	—	—	35	—	1,335	1,441	**2,811**
Other corporate	—	46	984	25	28	21	**1,104**
Total	**44**	**325**	**1,527**	**1,483**	**3,298**	**2,864**	**9,541**

	As at 4 April 2011						
	Belgium	France	Germany	Netherlands	USA	Other(4)	Total
	(£ millions)						
Government bonds	—	—	568	686	867	47	**2,168**
Mortgage backed securities	42	44	149	258	117	144	**754**
Covered bonds	—	—	128	60	27	92	**307**
Senior debt	74	202	179	246	393	615	**1,709**
Loans and advances to banks	—	547	93	—	893	866	**2,399**
Other assets	—	9	11	76	1,495	1,767	**3,358**
Other corporate	2	58	1,053	47	26	27	**1,213**
Total	**118**	**860**	**2,181**	**1,373**	**3,818**	**3,558**	**11,908**

Notes:

(1) This column represents exposures to Luxembourg £9 million, Australia £90 million, Canada £208 million, Denmark £1 million, Sweden £3 million, Switzerland £197 million and supranationals £762 million.

(2) This column represents exposures to Luxembourg £9 million, Australia £96 million, Canada £404 million, Denmark £4 million, Switzerland £278 million and supranationals £988 million.

(3) This column represents exposures to Finland £126 million, Luxembourg £7 million, Australia £290 million, Canada £532 million, Denmark £24 million, Iceland £6 million, Norway £36 million, Sweden £4 million, Switzerland £410 million and supranationals £1,429 million.

(4) This column represents exposures to Australia £423 million, Austria £7 million, Canada £383 million, Denmark £44 million, Finland £123 million, Iceland £6 million, Luxembourg £8 million, Norway £70 million, Sweden £38 million, Switzerland £701 million and supranationals £1,755 million.

7. DEPOSITS

The following tables set out the average balances and average interest rates for each of Nationwide's deposit types for each of the six months ended 30 September 2013 and for each of the financial years ended 4 April 2013, 2012 and 2011, respectively.

	For the six months ended 30 September 2013	
	Average balance	**Average rate paid**
	(£ millions)	*(per cent.)*
UK retail members deposits	129,395	1.83
Other customer deposits and amounts due to banks[1]	16,574	0.16

	For the financial year ended 4 April 2013	
	Average balance	**Average rate paid**
	(£ millions)	*(per cent.)*
UK retail member deposits	125,264	2.19
Other customer deposits and amounts due to banks[1]	17,090	0.04

	For the financial year ended 4 April 2012	
	Average balance	**Average rate paid**
	(£ millions)	*(per cent.)*
UK retail member deposits	125,456	2.25
Other customer deposits and amounts due to banks[1]	16,117	0.09

	For the financial year ended 4 April 2011	
	Average balance	**Average rate paid**
	(£ millions)	*(per cent.)*
UK retail member deposits	122,259	2.05
Other customer deposits and amounts due to banks[1]	15,140	(0.57)

Note:
(1) Amounts owed to other customers include time deposits, call deposits and retail deposits that do not grant "member" status.

As explained in paragraph 11.5 "*Retail Funding*" of "*Part XIV: Operating and financial review*", Nationwide's member accounts include both instant access accounts, from which funds may be withdrawn on demand, and notice accounts, from which funds withdrawn without appropriate notice may be subject to penalties.

The following table sets out the approximate split of Nationwide's UK retail member deposits between instant access accounts and notice accounts as at 30 September 2013.

	As at 30 September 2013
	(£ millions)
Instant access accounts[1]	54,506
Notice accounts[2]	75,874,
Accrued interest	571
UK retail member deposits	130,951

Notes:
(1) Includes current, transactional accounts, on demand and instant access accounts
(2) Includes tax advantaged savings accounts, fixed notice accounts and fixed term accounts

The following table sets out the maturity analysis of Nationwide's time deposits over U.S.$100,000 and certificates of deposit as at 30 September 2013.

	As at 30 September 2013			
	Time deposits	**Certificates of deposit**	**Total**	
		(£ millions)		*(per cent.)*
Less than 3 months	2,821	5,337	8,158	72.4
3 months to 6 months	813	1,877	2,690	23.9
6 months to 1 year	366	47	413	3.7
Total	4,000	7,261	11,261	100.0

8. RETURN ON ASSETS

The following table sets out Nationwide's return on assets (calculated as its net income expressed as a percentage of its total average assets) for each of the six months ended 30 September 2013 and for each of the financial years ended 4 April 2013, 2012 and 2011, respectively.

	For the six months ended 30 September 2013
	(£ millions, except percentages)
Net income(1)	234
Total average assets(2)	192,747
Return on total average assets	0.24%

	For the financial year ended 4 April 2013
	(£ millions, except percentages)
Net income(1)	178
Total average assets(2)	193,882
Return on total average assets	0.09%

	For the financial year ended 4 April 2012
	(£ millions, except percentages)
Net income(1)	152
Total average assets(2)	195,568
Return on total average assets	0.08%

	For the financial year ended 4 April 2011
	(£ millions, except percentages)
Net income(1)	224
Total average assets(2)	189,367
Return on total average assets	0.12%

Notes:
(1) Net income represents profit for the financial year after tax.
(2) Total average assets is based on the total assets at the end of each month during the financial period.

Nationwide does not present its returns on equity because, as a mutual organisation, it does not have equity.

PART XVII – RISK MANAGEMENT

1. ENTERPRISE RISK MANAGEMENT FRAMEWORK

Nationwide accepts that, as a provider of banking and financial services, all of its business activities involve the management of risk. To protect its membership, the Society seeks to manage appropriately the risks that arise from its activities. The principal risks inherent within the business are:

- lending risks (retail, commercial, treasury);
- financial risks (liquidity and funding, solvency, market, pension risks);
- operational risk (including transformation risk);
- customer and compliance risk; and
- strategic risk.

Nationwide manages its risks within an Enterprise Risk Management Framework (the **ERMF**) and has continued to strengthen its risk management frameworks and controls on an ongoing basis.

There is a formal structure for monitoring and managing risks across the Group comprising a risk appetite approved by the Board, detailed risk management frameworks (including policies and supporting documentation), and independent governance and oversight of risk.

The statements of Board risk appetite set out, in both descriptive and quantitative form, the parameters within which Nationwide will operate. These influence the strategies for the management of the principal risk categories, more detailed risk appetite metrics, controls and procedures, and corporate strategy.

The Chief Compliance Officer has responsibility to oversee customer and compliance risks, while the Chief Risk Officer (the **CRO**) has responsibility to oversee all risks for the Group. Both officers report to the Chief Executive Officer.

Nationwide's ERMF applies to the entire Group, including all trading divisions and subsidiaries, and is structured around five headings:

- **Risk culture** sets out the values and behaviours present throughout the organisation that shape risk decisions across the Group;
- **Risk governance and control** sets out the risk categories, the Three Lines of Defence (discussed further below) and how these are deployed, the committee governance structure and standards for documentation and policy;
- **Risk strategy** sets out the Board risk appetite and overall strategy for risk management, connecting the Board's corporate plan and risk appetite with practical and detailed strategies, controls and limits to deliver this strategy without compromising risk appetite;
- **Risk measurement** sets out the standards across the Group, encompassing risk data and systems, the use of models, reporting and risk-based performance measurement; and
- **Stress testing and planning** sets out the approach to Group-wide stress testing, scenario analysis, contingency plans and the interaction with other corporate processes.

2. RISK CULTURE

The Society defines risk culture as "the values, beliefs, knowledge and understanding about risk and the management of risk, advocated by the Board, shared and adopted by employees within the organisation". This risk focused 'tone from the top' is supported by appropriate levels of resource with the necessary skills.

The risk culture therefore sets out:

- Nationwide's approach to maintaining a strong risk culture;
- the risk culture statements to which all directors and staff are committed; and
- required ('do') and prohibited ('don't') behaviours at enterprise level.

The risk culture statements are grouped under four headings; 'shared understanding and attitude', 'clear communication', 'effective risk teams', and 'highest standards'. These risk culture statements were rolled out as part of the adoption of the ERMF at the start of the financial year ended 4 April 2013. In the final quarter of each financial year, a survey is undertaken to assess the effectiveness of the risk culture at the Society, the results of which feed into the objectives for the Risk Management Division for the next financial year.

3. RISK GOVERNANCE AND CONTROL

The five principal risk categories in the ERMF are as follows:

Risk category	Definition
Lending	The risk that a borrower or counterparty fails to pay the interest or to repay the principal on a loan or other financial instrument (for example, a bond) on time. Lending risk also encompasses extension risk and concentration risk.
Financial	The risk of the Society having inadequate earnings, cash flow or capital to meet current or future requirements and expectations. It includes loss or damage to the earnings capacity, market value or liquidity of Nationwide, arising from mismatches between Nationwide's assets, funding and other commitments, and which may be exposed by changes in market rates, market conditions or the Society's credit profile.
Operational	The risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events.
Customer & Compliance	The risk that the organisation fails to design and implement operational arrangements, systems and controls such that it can maintain legal and regulatory compliance, deliver fair customer outcomes and achieve a positive experience for its customers.
Strategic	The risk of significant loss or damage arising from business decisions that impact the long-term interests of the membership, or from an inability to adapt to external developments.

Under each of these principal risk categories, there are more specific supporting categories describing increasingly granular risk types.

In addition to these principal categories of risk, model risk is managed under a separate framework that applies across all risk categories and business areas where models are used. Model risk is the risk that an adverse outcome (incorrect or unintended decision or financial loss) occurs as a direct result of weaknesses or failures in the design or use of a model. The adverse consequences include financial loss, poor business or strategic decision making, or damage to the Society's reputation.

The frameworks for the above risks (including associated risk appetite, limits, supporting policies and other documents) are reviewed annually or more frequently as appropriate. They are also subject to continuous monitoring by relevant governance committees.

The Society adopts the Three Lines of Defence model with the objectives of:

- making Nationwide resilient, compliant and efficient;
- making risk appetite and risk exposure simple, transparent and controlled; and
- maintaining a strong risk culture.

Nationwide operates with clear independence of responsibilities for risk control, oversight and governance, in accordance with best practice for the financial services industry.

First line of defence	Second line of defence	Third line of defence
Every Nationwide employee is responsible for the risks that are a part of their day-to-day jobs. The first line of defence ensures all key risks within their operations are identified, mitigated and monitored by appropriate internal controls within an overall control environment.	Independent functions within the Risk Management Division and Compliance Division that are responsible for providing oversight and challenge of activities conducted in the first line.	Group Internal Audit provides independent assurance over the first and second lines of defence.

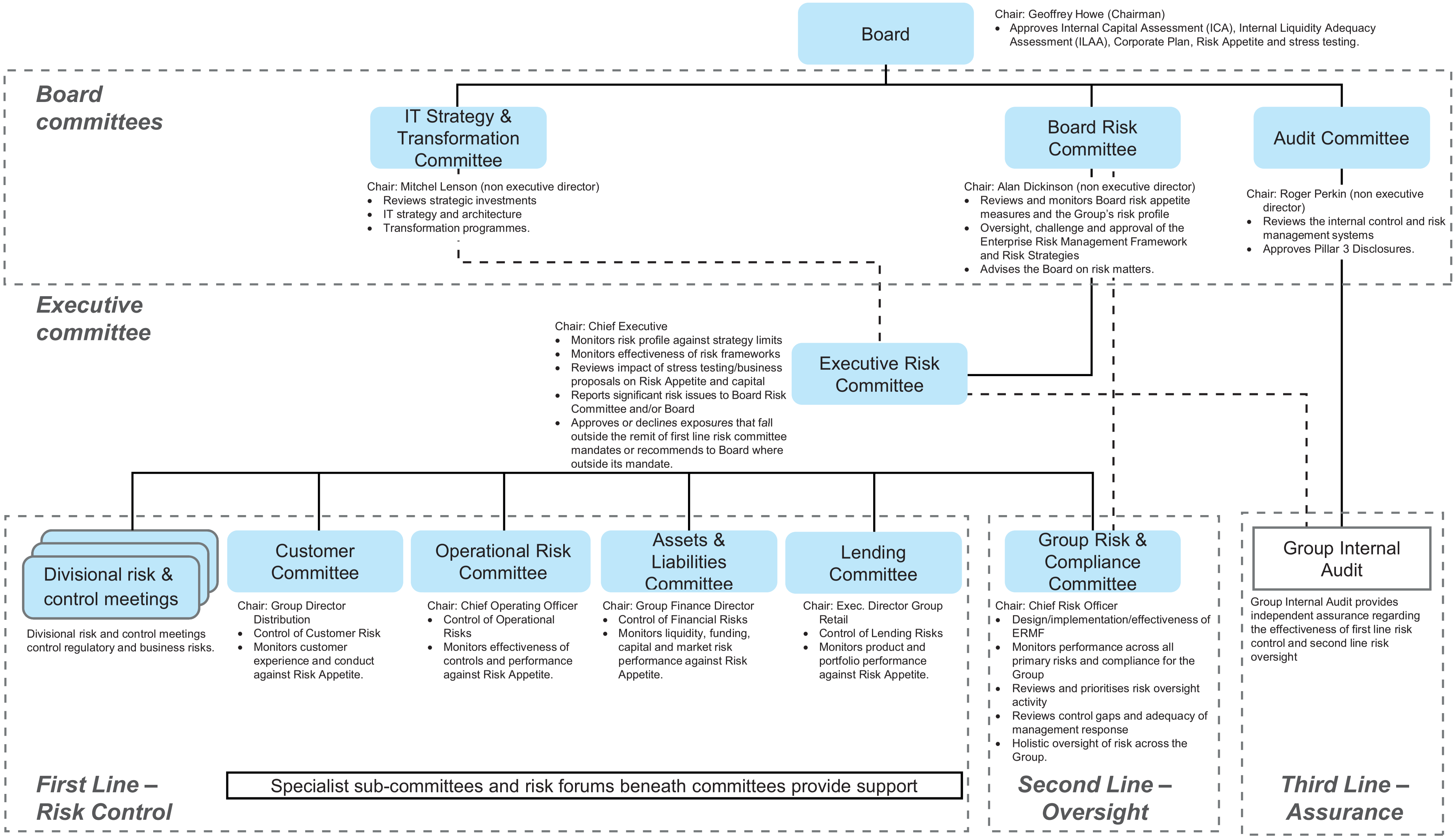
In organisational terms, the Three Lines of Defence model brings distinct separation between the elements of risk control (first line), independent oversight (second line) and audit assurance (third line).

First line risk control is provided by all relevant business units. These are supported by key control functions, where risks apply across Nationwide, and through an embedded network of risk representatives within the organisational areas under the control of executive and group Directors.

Second line oversight functions report to the Group Risk Director and the Compliance Oversight Director, who in turn report to the CRO and Chief Compliance Officer, respectively. These functions are aligned to the risk categories and model risk to oversee the first line management of risk, including concentrations where appropriate. The oversight teams maintain and review risk management frameworks, set standards, review policies, ensure that limits are consistent with risk appetite, monitor and report on compliance with those limits.

Third line assurance is provided by Group Internal Audit, which ultimately reports to the Audit Committee. Group Internal Audit provides independent assurance regarding the activities of both first line risk control and second line risk oversight.

The chart below illustrates the principal committees that form Nationwide's risk governance structure.



The Board Risk Committee and the Audit Committee provide support and insight to the Board. The Executive Risk Committee ensures a co-ordinated management approach across all risks in operational terms. The remit and scope of risk reporting for each of these committees is aligned to the ERMF.

The CRO chairs the Group Risk & Compliance Committee and the Chief Compliance Officer is deputy chair. As attendees of the Board Risk Committee, they have direct access to the Chair of the Board Risk Committee to escalate risk issues as appropriate.

Beneath the second line Group Risk and Compliance Committee there is a specialist Model Risk Oversight Committee, which is responsible for setting modelling standards for Nationwide, the approval of modelling methodologies, and the monitoring of Nationwide's model risk profile.

Beneath the Customer Committee, the Operational Risk Committee, the Assets & Liabilities Committee (**ALCo**) and the Lending Committee in the first line there are specialist sub-committees, forums and working groups that consider technical detail and reports; sub-committees have delegated decision-making powers while forums and groups make recommendations to their parent committees as appropriate. In addition, all executive divisions hold risk and control meetings so that there is the opportunity to report and escalate risks across Nationwide.

4. RISK STRATEGY

The Board sets high-level risk appetite statements to enable the Society to:

- identify and define the type and levels of risks it is willing to accept in both qualitative and quantitative terms;
- describe the risks the Society is willing to take, and those it will not take, in pursuit of its strategic goals; and
- establish a framework for business decision-making.

This high level Board risk appetite statements are as follows:

"We ensure fair customer outcomes combined with high customer satisfaction ratings."
"We hold sufficient capital and liquidity resources, and sustain this with stable earnings, diverse sources of funding and minimal exposure to market and off-balance sheet risks."
"We build high quality lending portfolios that seek to earn an adequate return."
"We ensure controls are effective to minimise serious customer or business disruption."
"We ensure that the business model and strategy are focused on securing the long-term needs of the membership."

The Board risk appetite statements are further expanded into qualitative statements that are supported by a focused suite of Board risk metrics, limits and triggers, designed to cover all Nationwide's risks. Board risk appetite is also incorporated in the corporate planning process and informs early warning signals in the recovery and resolution plan. Board risk appetite is reviewed annually.

The Board risk appetite is supported by risk strategies for the principal risks that are approved by the Board Risk Committee. The risk strategies set out in detail how the risk is managed, the key risks are posed, and provide a more granular view of risk appetite including detailed limits and triggers that are monitored by the first line risk committees. Reporting, limits and controls are therefore set in a hierarchy that links the Board's tolerance for risk with risk-taking actions on the ground and behaviour throughout Nationwide. Lower level metrics from the first line risk committees are escalated to the Executive Risk Committee and the Board Risk Committee should they fall outside of tolerance or breach risk appetite.

5. RISK MEASUREMENT

At a strategic level, the Society's risk management objectives are to:

- identify risks against the Corporate Plan and divisional objectives;
- assess risk exposure by impact and likelihood;
- respond to risks by evaluating the position against risk appetite and formulating associated management response; and
- monitor the agreed management action plans and updates.

In the course of such risk assessment, controls may be challenged, strengthened and risks mitigated within the context of risk appetite. The approach serves to help executives improve the control and co-ordination of risk-taking across Nationwide and to manage the risk profile in the context of corporate objectives.

The Society's Board risk appetite and supporting measures are also monitored within this governance structure. These measures ensure appropriate coverage of all the principal risk categories facing the Society through a detailed suite of metrics in addition to key regulatory ratios, such as the Society's Core Tier 1 ratio.

6. STRESS TESTING

Stress testing is an integral part of the annual corporate planning process, the adequacy assessment processes for liquidity and capital, and the annual review of Nationwide's risk appetite. This is to ensure that Nationwide's financial position and risk profile provide sufficient resilience to withstand the impact of stressed economic and market conditions or one-off events.

Stress tests are undertaken using a three-phase approach:

Phase 1: Planning and preparation	Definition of the macro-economic stress scenario, market assumptions for mortgages, savings and banking and business volume and margin assumptions.
Phase 2: Detailed modelling	Modelling of the scenario to understand its impact on Nationwide's profitability, balance sheet, capital and liquidity positions. Identification and quantification of mitigating management actions.
Phase 3: Review and report	Collation and presentation of the results for review and challenge through a hierarchy of risk management committees, culminating in the Board Risk Committee, before being sent to the PRA where appropriate.

The stress testing programme is overseen by the Board Risk Committee, with the process led by a centralised team within Group Finance. Macro-economic scenarios are designed to be both severe and plausible and are benchmarked against the PRA's own scenario framework to ensure that they are appropriately conservative. At the Nationwide level, stress test scenarios capture a wide range of macro-economic variables that are relevant to Nationwide's business model.

Once scenarios have been analysed, relevant management actions are identified and applied to ensure that the business has the means to restore its capital adequacy within a suitable timeframe (as guided by key stakeholders). These management actions are selected from a central record of all potential management actions which are subject to governance and are reviewed regularly against the Corporate Plan and the stress testing programme to ensure that they remain relevant and effective.

The results of the stress testing process are subject to detailed review, challenge and approval through a hierarchy of committees including the ALCo, the Executive Risk Committee and the Board Risk Committee, before being shared with the regulator. Should the Board Risk Committee conclude that available management actions would not deliver target capital metrics within a sufficient timeframe (for example, if the impact of a stress results in a sustained breach of the Board's risk appetite metrics) the Corporate Plan will be amended accordingly.

7. LENDING RISK

The Society considers lending risk by reference to three-sub categories:

Retail (secured and unsecured)	The risk that a borrower or counterparty fails to pay the interest or to repay the principal on a loan or other financial instrument within the prime mortgage, specialist lending, personal loan, credit card and banking portfolios.
Commercial	The risk that a borrower or counterparty fails to pay the interest or to repay the principal on a loan or other financial instrument within the commercial lending portfolio.
Treasury	The risk that a borrower or counterparty fails to pay the interest or to repay the principal on a loan or other financial instrument within the treasury liquidity and non-core portfolios.

Lending risk includes all aspects of credit risk including concentration risk and extension risk. Comprehensive credit risk management methods and processes are established as part of Nationwide's overall governance framework to measure, mitigate and manage credit risk within its risk appetite. As a mutual organisation, Nationwide maintains a conservative approach to risk as shown by the quality of its balance sheet. Lending risk portfolios are managed within concentration limits and are subjected to stress testing and scenario analysis to simulate potential outcomes and calculate their associated impact. For further information on lending risk, see note 34 to the Consolidated Annual Financial Information.

7.1 Retail credit risk

Retail credit risks are managed in accordance with limits set out within the Secured and Unsecured Lending Risk Strategies. Detailed policies exist which set out lending criteria and circumstances where specialist underwriting may be needed. Group Lending Risk, reporting through to the CRO, oversees the retail credit functions.

For residential mortgages, a combination of lending policy criteria, credit scoring, policy rules and underwriting are used to make a decision on applications for credit. The primary factors considered are affordability, residential status, buyer types, employment history and LTV. In addition, confirmation of borrower identity is obtained and an assessment of the value of the security being taken as collateral is carried out prior to granting a credit facility. When considering applications, the primary focus is placed on the willingness and ability to repay.

Each of the unsecured portfolios has its own credit scoring models (including behavioural scoring), policy and underwriting rules to make decisions on applications for credit and to manage accounts. Credit scoring is used to support the customer account management process in the following ways:

- to set customer maximum lending limits;
- to set shadow limits to manage unauthorised borrowing; and
- to prioritise collections activity.

Ongoing monitoring of all retail credit portfolios is undertaken by the Secured and Unsecured Credit Risk functions in the Risk Management Division. Reports are sent to the Lending Committee and Executive Risk Committee on a monthly basis, and to every meeting of the Group Risk & Compliance Committee and the Board Risk Committee.

Nationwide offers a number of support options to both secured and unsecured customers. The credit policies and provisioning treatment relating to these activities have been proactively reviewed over the year ended 4 April 2013 to ensure alignment to regulatory defined good practice. The options offered may be classified into three categories:

- change in terms;
- forbearance; and
- repair.

7.2 Commercial credit risk

The Society's commercial lending activity relates to the provision of facilities to meet the funding requirements of property investors and private sector landlords, registered social landlords, and project finance initiatives.

Commercial credit risks are managed in accordance with limits and asset quality measures which are set out in the Commercial Lending Risk Policy and the Lending Risk Strategy. The policies place limits on business volumes as well as the sector, geography, size and seniority of exposures. Reports relating to the profile of the commercial lending portfolio are sent to the Lending Committee and the Executive Risk Committee on a monthly basis. Group Lending Risk, reporting through to the CRO, oversees the commercial credit function.

Lending decisions are subject to a manual, subjective underwriting process which is supplemented by the use of cash flow models and rating systems that are designed to measure the relative strength of the obligor and transaction. Borrowers are graded at origination and at least annually thereafter, allowing identification of adverse individual and sector trends. Review frequency will be more intense for those counterparties perceived to present higher risk and following material changes in the risk profile.

The Commercial Credit Risk function in the Risk Management Division operates independently of the customer relationship in the Commercial Division and has a level of delegated sanctioning authority to underwrite certain credit risks based upon an evaluation of the obligors:

- financial strength;
- ability to repay;
- security characteristics;
- experience;
- track record; and
- transaction structure.

Large or high risk exposures are subject to further approval by the Lending Committee and/or the Executive Risk Committee. Consideration is also given to risk mitigation measures which will provide Nationwide with protection; examples are third-party guarantees, supporting collateral and security, robust legal documentation, financial covenants and hedging. The approval of facilities is in accordance with the prevailing credit risk policies and risk appetite.

Monitoring of asset quality in the commercial portfolio is based upon a number of measures including rating grade migration, regulatory capital, performance versus plan, risk concentrations, market changes and financial covenant monitoring. All commercial lending relationships are subject to regular reviews, at least once a year, to ensure that facilities are fully performing in accordance with the terms of the original sanction and provide an opportunity to review the exposure to each counterparty in the light of the most recently available financial and non-financial information and to refresh risk grading data.

Watchlist procedures are used to identify cases of high risk and those that are a potential cause for concern, in order that risk mitigating action may be initiated at the earliest opportunity. Renewals and review frequencies will be more intense for those borrowers perceived to be of higher risk.

Specialist relationship teams work proactively with borrowers to help mitigate the risks arising from distressed assets and those showing early signs of distress. If this proves unsuccessful, the case will be subject to intensive monitoring and management procedures designed to maximise debt recovery.

7.3 Treasury Credit Risk

Treasury credit risks are managed in accordance with limits and credit quality measures which are set out in the Treasury Credit Policy. Group Lending Risk, reporting through to the CRO, oversees the treasury credit function. Large or higher risk exposures are subject to further approval by the Lending Committee and/or the Executive Risk Committee and are ratified by the Board Risk Committee.

Lending and investment decisions are subject to a manual, subjective underwriting process which is supplemented by cash-flow modelling (using the independent market standard modelling tool, Intex) or from the outputs of a financial strength rating model. All credit lines and exposures are continuously reviewed, which includes a comprehensive analysis of the counterparty's financial performance, rating status (both external and where appropriate, the internal ratings) as well as recent developments to ensure that the approved credit limits remain at appropriate levels. Review frequencies will be more intense for those counterparties perceived to be higher risk. Counterparties are reviewed in light of significant material changes or events that may impact their credit rating.

The Society uses S&P, Moody's and Fitch as External Credit Assessment Institutions (**ECAI**s) for treasury credit risk exposures. S&P is used for sovereigns, institutions, asset backed securities, covered bonds and corporates. Moody's is used for sovereigns, institutions, covered bonds and asset backed securities. Fitch is used for asset backed securities.

The issuer and issue credit assessments provided by ECAIs are one of a number of considerations that form part of the credit assessment process. This is supported by comprehensive Treasury credit procedures. Treasury uses a number of risk mitigation techniques including netting and collateralisation agreements. Other methods such as disposal and credit derivatives are used periodically to mitigate the credit risk associated with particular transactions or a group of transactions.

Ongoing asset quality monitoring is undertaken by Treasury Credit. Reports relating to the profile of the Treasury credit portfolio are sent to the Lending Committee and the Executive Risk Committee on a monthly basis. Where necessary, exception reporting also takes place against a range of asset quality triggers including regulatory capital analysis.

For further information in relation to Nationwide's exposure to credit risk, see the discussion of credit risk in note 34 to the Consolidated Annual Financial Information.

8. FINANCIAL RISK

Financial risk is split into four sub-categories as follows: liquidity and funding risk, solvency risk, market risk and pension risk. Financial risk is managed within a framework of approved assets, currencies and capital instruments supported by detailed limits set by either the Board or the ALCo under its delegated mandate. The Board retains responsibility for approval of derivative classes that may be used for market risk management purposes, restrictions over the use of such derivative classes (within the limitations imposed under the Act) and for asset classes that may be classified as liquidity.

Strategy in using financial instruments: Financial instruments constitute the vast majority of Nationwide's assets and liabilities. Nationwide accepts deposits from customers at fixed, floating and variable interest rates for various periods and seeks to earn an interest margin by investing these funds in high quality assets, predominantly residential mortgages. The principal risks which arise from this core activity, and which need to be managed by Nationwide, are interest rate risk (including basis risk), credit risk, foreign exchange risk and liquidity and funding risk.

Derivatives: Nationwide uses derivative instruments to manage various aspects of risk. Its derivative activities are undertaken in compliance with the Act, which limits its use of derivatives to the mitigation of consequences arising from changes in interest rates, exchange rates or other factors defined by the Act.

The principal derivatives used in balance sheet risk management are interest rate swaps, forward rate agreements, interest rate options, cross-currency swaps, interest rate futures, foreign exchange contracts and equity index swaps. Derivatives are used to hedge balance sheet and income exposures arising, amongst others, from fixed rate mortgage lending, fixed rate savings products, funding and investment activities in foreign currencies or involving fixed rate instruments or instruments with embedded options. Risk exposures are recorded on Nationwide's information systems and monitored accordingly.

All exchange-traded instruments are subject to cash requirements under the standard margin arrangements applied by individual exchanges. Such instruments are not subject to significant credit risk. Credit exposures arising on derivative contracts with all main counterparties are collateralised (for example, with cash deposits) to mitigate credit exposures. All of Nationwide's derivatives activity is contracted with Organisation for Economic Co-operation and Development (**OECD**) financial institutions.

8.1 Liquidity and funding risk

Liquidity risk is the risk that Nationwide is unable to maintain all of the following capabilities:

- to meet its financial obligations as they fall due including any unexpected adverse cash flow;
- to smooth out the effect of maturity mismatches; and
- to maintain public confidence.

Funding risk is the risk associated with the impact on Nationwide's cashflow from higher funding costs or the inability to access funding markets.

Nationwide has developed comprehensive liquidity and funding policies to ensure that it continues to be able to meet its funding obligations and to maintain or grow its business. Nationwide's operations are funded primarily from retail sources, supported by a diversified wholesale funding capability. A high quality liquid asset portfolio is also maintained.

Nationwide's management of liquidity and funding risk aims to ensure that at all times there are sufficient liquid resources, both as to amount and quality, to cover cash flow mismatches and fluctuations in funding, to retain public confidence and to enable it to meet financial obligations as they fall due, even during periods of stress. This is achieved through maintaining a prudent level of high quality liquid assets, through management and stress testing of business cash flows and through management of funding facilities. Nationwide's liquidity and funding risk approach is approved by the ALCo and is reviewed by the Board as part of the annual approval of the Individual Liquidity Adequacy Assessment document.

Liquid assets are categorised according to their liquidity characteristics. The most liquid category of assets predominately compromises holdings of sovereign issued securities and deposits with the central bank and is aligned to the liquid asset buffer defined in the PRA's Handbook (**BIPRU**). Assets may be acquired through direct purchase, through repurchase agreements or through collateral swaps. Encumbered assets are excluded from the calculation of liquid assets which is conducted on a daily basis.

The Board is responsible for setting limits for the minimum level of liquidity resources. A series of liquidity stress tests are performed daily which include stressed assumptions such as the outflows Nationwide would experience if it had a credit rating downgrade, a proportion of retail funding balances being lost and the volume of pipeline mortgages which are expected to complete. The stress tests are run alongside Nationwide's calculation of the regulatory liquidity requirement and they represent Nationwide's view on liquidity risks and therefore determine the required levels of liquidity. The Board has also set limits for the funding mix of the balance sheet.

ALCo is responsible for setting more detailed limits within the context of overall Board limits, including the level and maturity profile of funding, and for monitoring the composition of Nationwide's balance sheet. Wholesale and retail funding maturities are monitored to ensure that there is not excessive concentration in future maturities. This enhances the ability of Nationwide to refinance maturing liabilities. A consolidated cash flow forecast is maintained on an ongoing basis and reviewed by the Weekly Trading Committee, a sub-committee of the ALCo.

Fixed rate sovereign debt securities are held for liquidity purposes. When swapped to a floating rate using an interest rate swap, it is possible that value changes in the underlying security and the interest rate swap will not exactly offset. As such, there is a risk that the overall value will fluctuate as a result of changes in the spread between the yield on the security and the prevailing swap rate. In economic terms this risk is only realised if the debt is sold ahead of maturity, however the application of accounting rules can result in volatility within a particular financial year.

A Contingency Funding Plan has been approved by the ALCo and describes procedures and available actions to manage Nationwide's liquidity resources through a period of market-wide and/or Society-specific disruption. This is reviewed every six months and various components are tested on a scheduled basis.

For further information on Nationwide's exposure to liquidity risk, see note 35 to the Consolidated Annual Financial Information.

8.2 Solvency risk

Nationwide's solvency risk policy manages any potential risk that Nationwide may fail to maintain sufficient resources to absorb losses throughout a full economic cycle and sufficient to maintain the confidence of current and prospective investors, members, the Board and regulators.

In May 2008, the FSA granted Nationwide permission to use Internal Ratings Based (**IRB**) approaches for credit risk and capital management. Since 4 April 2009, Nationwide has predominantly calculated its capital requirement on an IRB approach and Nationwide is developing its IRB models in accordance with the roll out plan included within its IRB-waiver approval from the regulator. On an annual basis, Nationwide conducts an Internal Capital Adequacy Assessment Process to assess its capital adequacy and determine the levels of capital required going forward to support the current and future risks of the business.

8.3 Market risk

Market risk is the risk that the value of, or net income arising from, Nationwide's assets and liabilities changes as a result of changes to interest rates, exchange rates or equity prices. The Board risk appetite statement for market risk is that management should take only those market risks that are required to support its primary business lines (that is, no trading book risks) and hedging strategies should be designed to neutralise structural exposure to interest rate and basis risks.

Market risk only arises in the banking book as Nationwide does not have a trading book. Exposure is managed using a combination of:

Value at Risk (**VaR**). This is a technique that estimates the potential losses that could occur on risk positions as a result of future movements in market rates and prices over a specified time horizon and to a given level of statistical confidence. In its day-to-day monitoring, Nationwide uses a 10-day horizon and a 99 per cent. confidence level.

The VaR model used by Nationwide incorporates underlying risk factors based on interest rate and foreign exchange volatilities and correlations. Potential movements in market prices are calculated by reference to daily market data from the last two years, equally weighted. Exposures against limits are reviewed daily by management. Actual outcomes are monitored periodically to test the validity of the assumptions and factors used in the VaR calculation.

Although a valuable guide to risk, VaR needs to be viewed in the context of the following limitations:

- VaR models often under predict the likelihood of extreme events and over predict the benefits of diversification in those extreme events;
- the use of a 99 per cent. confidence level, by definition, does not take account of changes in value that might occur beyond this level of confidence;
- the VaR model uses historical data to predict future events. In periods of heightened volatility the model is likely to under predict market risks and in periods of low volatility it is likely to over predict market risks; and
- VaR is calculated on the basis of exposures outstanding at the close of business and therefore does not necessarily reflect intra-day exposures.

Sensitivity analysis (**PV01 sensitivity**). This is used to assess the change in value of Nationwide's current net worth against a one basis point (0.01 per cent.) parallel shift in interest rates. As is the case with VaR, this analysis is done on a daily basis separately for each currency (but with the main risk arising from sterling exposures) and in aggregate.

Stress testing (**PV200 sensitivity**). In recognition of its limitations, VaR is augmented with stress testing to evaluate the potential impact of more extreme, though plausible, events or movements in a set of financial variables. Standard PV01 sensitivity analysis for interest rate risk exposures is supplemented by the production of stressed sensitivity measures. A much more severe 200 basis point (2.0 per cent.) parallel shift in interest rates is calculated in a similar manner to PV01, this sensitivity analysis is known as PV200. PV200 numbers are generated and monitored daily. Each quarter, the residual interest rate risk and foreign exchange positions are also subjected to a range of stressed scenarios designed to highlight potential losses in extreme situations. The results of these stresses are presented to the Balance Sheet Risk Forum to aid insight into the accuracy of the VaR numbers and to reveal scenarios in which Nationwide may make losses on its residual interest rate and foreign currency positions. A range of metrics are regularly produced focusing on the crystallisation of product option risks under stressed events. Nationwide's net interest income projections are also calculated under a range of stressed interest rate scenarios.

The following tables set out Nationwide's average gross exposures under its VaR test in the six months ended 30 September 2013 and under its VaR, PV01 and PV200 tests in each of the financial years ended 4 April 2013 and 4 April 2012.

	Six months ended 30 September 2013		
	Average	**High**	**Low**
		(£ millions)	
VaR (99%/10-day)	0.74	2.17	0.17

	Financial year ended 4 April 2013			**Financial year ended 4 April 2012**		
	Average	**High**	**Low**	**Average**	**High**	**Low**
			(£ millions)			
VaR (99%/10-day)	0.8	1.8	0.1	0.5	1.4	0.1
Sensitivity analysis (PV01)	0.0	0.1	-0.1	0.0	0.1	-0.1
Stress testing (PV200: all currencies)	7.9	22.3	-16.2	6.8	21.0	-7.9

All exposures exclude investment of Nationwide's reserves, which means that they reflect the discretionary risk positions run by Nationwide's Treasury Division which tend to be relatively small and subject to tight limits.

Interest rate risk: The main market risk faced by Nationwide is interest rate risk which primarily arises from its retail and commercial assets and liabilities, core liquidity holdings, and wholesale funding activities. Interest rate risks relating to retail and commercial products are managed through the use of proxy tickets. For example a number of retail mortgages with similar interest rate risk characteristics are aggregated into a single proxy ticket. These tickets are regularly reconciled to the balance sheet. Interest rate risks generated by these activities are offset against each other, and the remaining net exposure to interest rate risk is managed on a continuous basis, within parameters set by the ALCo, using a combination of derivatives and cash instruments (such as loans, deposits and bonds).

Earnings risk: Earnings risk or net interest income risk is the risk that Nationwide's net interest income is adversely affected by a change in the level of interest rates. The sensitivity of Natiownide's net interest margin to changes in interest rates is measured monthly using a dynamic forecasting model and interest rate scenarios, and is calculated for a forward period of 12 months incorporating the impact of prepayment and access options embedded within fixed rate retail products. The scenarios are based on the projected hypothetical yield curves and Nationwide's current interest rate risk profile. However, they do not incorporate management actions that would be undertaken to mitigate the effect of interest rate risk.

The contractual terms of products and transactions determine the flexibility to manage net interest margin. In the current low interest rate environment, this flexibility has been constrained by a natural floor, at 0 per cent., for banking and savings rates, and a contractual ceiling for base mortgage rate products, relative to the base rate. New mortgages written by the Society since 30 April 2009 do not contain a contractual ceiling relative to base rate in order to increase the Society's flexibility in this regard.

Basis risk: Where assets and liabilities reprice at the same time but in line with a different interest rate basis, Nationwide is exposed to basis risk. For example, where assets reprice with reference to Bank of England base rate but liabilities reprice with reference to three-month Libor, a basis risk exists. Basis risk is managed using a holistic approach incorporating a projection of balance sheet exposure net of derivatives. An earnings-at-risk number is calculated over the next year under a stressed rate scenario. Natiownide's exposure is limited with mitigating actions being taken by the ALCo.

Swap spread risk: The Society is required to hold a substantial core liquidity portfolio. These assets are predominantly fixed rate government securities and hence are accompanied by interest rate swaps to hedge the Society against general movements in interest rates. However, there remains a residual risk associated with the possible movements in the spread between sovereign debt yields and swap rates. This 'swap spread risk' reflects that the market value of the swapped core liquidity portfolio can move up and down on a day-to-day basis. For example the market value falls if the yield of sovereign debt increases more than swap rates, as the market value loss of the sovereign debt is higher than the mark to market profit on the swap. The risk is only crystallised if the sovereign debt and associated swap are sold. These market value movements are monitored carefully, while the risk is controlled through sensitivity and VaR limits. Exposures are monitored daily and reported monthly to the ALCo.

Foreign exchange risk: Nationwide's foreign exchange exposure is mainly created by any residual mismatch between wholesale funding issuance and liquidity holdings in euros and dollars. As with interest rate risk, the remaining net exposure is managed on a continuous basis, within parameters set by the ALCo, using a combination of currency swaps, foreign exchange spot and forward transactions and cash instruments (such as loans, deposits and bonds).

Foreign currency exposure is hedged through natural offset on the balance sheet or by using derivatives to reduce currency exposures to acceptable levels. The ALCo sets and monitors limits on net currency exposure.

The following table sets out the average gross sterling equivalent exposures for foreign exchange risk in each of the six months ended 30 September 2013 and in each of the financial years ended 4 April 2013 and 4 April 2012.

	Six months ended 30 September 2013			**Financial year ended 4 April 2013**			**Financial year ended 4 April 2012**		
	Average	**High**	**Low**	**Average**	**High**	**Low**	**Average**	**High**	**Low**
				(£ millions)					
VaR (99%/10-day)	0.37	0.71	0.06	0.3	0.8	0.0	0.3	0.7	0.0

Product option risks: Potential losses from market risks also arise as a result of customers exercising options embedded in fixed rate products resulting in required changes to hedging. The key product risks are prepayment risk (early redemption or overpayment of fixed rate mortgages), access risk (early withdrawal of fixed rate savings), and attrition risk (higher or lower take up of fixed rate mortgages). They are quantified and assessed from a set of bespoke models that are used to predict customer behaviour in response to changes in interest rates. The forecast cost relating to these scenarios is then monitored. These stressed-risk measures are subject to a set of triggers and are reported to the Balance Sheet Risk Committee and ALCo, along with a set of proposed management actions where necessary. Stressed losses are predicted for each risk by simulating future interest rate paths and calculating the resulting profit or loss for each. This determines a loss distribution from which an extreme percentile is calculated. Regulatory capital requirements are determined to cover these stressed losses during the Individual Capital Assessment and these requirements are also recalculated and reported monthly to Capital Management with explanations of any significant movements. These are collated and reported onwards to the Capital and Stress Testing Committee, the ALCo and the Executive Risk Committee. Model performance is back tested through a process where observed interest rates are applied to the same models to generate a model-predicted 'actual' profit or loss. These results are compared to the observed profit or loss to ensure that model accuracy is continually assessed and the potential impact on results is known. These results are then used to inform model development during the annual review process and can result in model parameters being re-estimated where appropriate.

Model valuation and modelling risk: This is the risk that an adverse outcome (an incorrect or unintended decision or a financial loss) occurs as a direct result of weaknesses or failures in the design or use of a model. The adverse consequences include financial loss, poor business or strategic decision making, or damage to Nationwide's reputation. Models are used throughout Nationwide, for instance, to make or support lending, investment and payment decisions (such as credit scorecards and rating models), to calculate provisioning, capital and liquidity requirements, and to value or price products and assets.

Model risk, an inherent part of other risk categories, is managed under a separate framework that applies across all risk categories and business areas where models are used. Nationwide has a dedicated department within the Risk Management Division to oversee model risk across the Group. The model risk framework aims to ensure effective governance and oversight of models and that standards are consistently applied. The validation process identifies model strengths and weaknesses, assesses the potential impact of these, and suggests appropriate mitigating actions. The review findings are finally presented to the Model Risk Oversight Committee (the **MROC**) which is responsible for assessing that the models are fit for purpose

The Group Modelling, Measurement and Methodology department reviews monthly model monitoring and the periodic reviews are presented to MROC.

For further information on market risk, see note 35 to the historical financial information.

8.4 Pension risk

Pension risk is the risk that Nationwide's funding obligations for a number of defined benefit pension schemes expose it to longevity risk and various market risks including interest rate risk, inflation risk and equity risk within those schemes. Nationwide has funding obligations for a number of defined benefit schemes, the most significant being the Nationwide Pension Fund (the **Fund**), which is closed to new entrants. Pension risk is the risk that the returns from the Fund's assets, together with ongoing employer and member contributions, will be insufficient to cover the projected obligations of the Fund over time. The return on assets, which includes equities and bonds, will vary with movements in equity prices and interest rates. The projection of the Fund's obligations includes estimates of mortality, inflation and future salary rises, and discount factors; the actual outturn of which may differ from the estimates. The Fund is also exposed to possible changes in pension legislation.

9 OPERATIONAL RISK

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. This definition is further refined into 10 key risk and control policy areas as shown below.

The Society's operational risk profile is informed by risk assessments from the business, and by review and challenge by both the Operational Risk Committee and the second line oversight functions. Nationwide continues to invest in new products and services for a growing customer base. Nationwide's operations are well-controlled, which has resulted in maintained high levels of customer service delivery.

Acknowledging the scale of regulatory change and the current macro-economic environment, management of Operational Risk remains a priority and continued investment in and development of risk frameworks and control environments is being made. A plan of activity is in place that covers policy, control, risk system and framework enhancements, this activity is being managed with direction provided by a first line Operational Risk Committee under the chairmanship of the Chief Operating Officer.

Nationwide undertakes a programme of regular risk and control assessment activity which is supported by assessments of more extreme but plausible events that could occur. External events and regulatory developments are considered in order to ensure that Nationwide remains resilient and proactive in its responses.

Risk category	Definition
Business continuity	The risk of damage to Nationwide as a result of loss or failure arising from Nationwide being unable to continue business operations in the event of significant operational disruption or arising from loss or damage to physical assets or staff from a natural disaster or other events.
Fraud (internal/ external)	The risk that Nationwide fails to maintain systems and controls that are effective in preventing the risk that they might be used to further financial crime.
Financial reporting, accounting, management and taxation	The risk of damage to Nationwide as a result of loss or failure arising from the operational risks associated with the publication of the financial statements, adherence to accounting standards, compliance with tax laws and codes, maintenance of the general ledger and management of financial resources.
Information management	The risk of damage to Nationwide a result of loss or failure arising from failure to ensure accuracy and completeness of data and information aligned with agreed business standards and/or failure to provide accessibility of data and information required for key business processes, key decision making and regulatory and compliance obligations.
Information security	The risk of damage to Nationwide, its customers and employees as a result of loss or failure arising from the inadequate design or failure to apply appropriate security controls.
Information technology	The risk of damage to Nationwide as a result of loss or failure arising from technology services not supporting business objectives due to performance, availability and/or functionality.
People	The risk of damage to Nationwide as a result of loss or failure due to its inability to recruit, develop, reward and retain the required people resources.
Premises and physical assets	The risk of damage to Nationwide as a result of loss or failure arising from criminal prosecution, injury or losses arising as a consequence of a failure to ensure that premises and physical assets are fully compliant, effectively maintained and in good working order, or that they are adequately secured and protected.
Third party	The risk of damage to Nationwide as a result of loss or failure arising from buying decisions (including outsourcing, off-shoring and joint ventures, acquisitions or set up of a separate company), setting up a contract, management of a third party and uncontrolled spend or buying.
Transformation	The risk of damage to Nationwide as a result of loss or failure arising from formally managed project activities that seek to deliver change in Nationwide's capabilities.

10. CUSTOMER & COMPLIANCE RISK

Customer and compliance risk is split into the following sub-categories:

Risk category	Definition
Customer experience	The risk that Nationwide's customers do not have a positive experience.
Firm and culture	The risk that Nationwide fails to design and implement operational arrangements, systems and controls that achieve legal and regulatory compliance, and embed a corporate culture where fair customer outcomes and the achievement of a positive experience is central to Nationwide's values and behaviour.
Retail Conduct	The risk of failing to deliver fair outcomes for Nationwide's customers.
Prudential standards	The risk that the design and operation of Nationwide's systems and controls fails to maintain compliance with prudential requirements.
Wholesale conduct	The risk that Nationwide's financial markets activity is inappropriate and/or does not comply with regulatory requirements.
Financial crime	The risk that Nationwide fails to establish and maintain effective systems and controls to prevent the risk that it might be used to further financial crime (includes money laundering, counter-terrorism financing, sanctions, and bribery and corruption).

Customer risk, including retail conduct risk, was elevated to become a primary risk under the ERMF at 30 September 2012 in response to increased expectations from the Board and the regulator. The wider elements of legal and compliance risk have since been incorporated into the scope of this Customer and Compliance risk category. This risk category now measures in one place how Nationwide maintains legal and regulatory compliance, delivers fair customer outcomes and achieves a positive experience for its customers. This is particularly important against the recent backdrop of regulatory focus on technical conduct breaches and other matters, together with increased levels of customer restitution throughout the industry.

The customer and compliance risk framework complements the operational risk framework to ensure the identification, management and control of customer and compliance risks are undertaken consistently with other operational risk categories.

On a day-to-day basis, customer and compliance risks are managed and controlled by business management. They are supported in this by key control functions whose advice and guidance includes identifying all relevant legal and regulatory requirements, extending to related voluntary codes and standards affecting Nationwide, and determining (in collaboration with business management) how best to implement those requirements.

11. STRATEGIC RISK

Strategic risk is split into the following sub-categories:

Risk category	Definition
Business model risk	The risk associated with failing to adopt an appropriate business model, set appropriate goals and targets in the Corporate Plan, or adapt to external developments.
Reputation risk	The risk that arises from material adverse publicity resulting in a loss of confidence from key stakeholders sufficient to threaten the strategic objectives of the business.
Strategic initiatives risk	The risk that the Society enters into strategic initiatives that undermine the business model, or does not enter into appropriate strategic initiatives that would enhance the business model.

Strategic risk focuses on large, longer-term risks that could become a material problem for Nationwide. Whilst all business areas are responsible for managing their own risks, management of strategic risk is primarily the responsibility of senior management and committees whose remit encompasses all the risk categories on a Group-wide basis.

The management of strategic risk is intrinsically linked to the corporate planning and stress testing processes and is further supported by the regular provision of consolidated business performance and risk reporting data to the Board and senior risk committees.

Reputation risk is inherent in all risk categories where actions and incidents can affect whether people trust, and wish to do business with, Nationwide. Reputation is monitored through incident reporting, media monitoring, business performance, complaints monitoring and both internal and external benchmarking.

To manage strategic risk, Nationwide focuses on serving both current and future members while maximising member benefit. Activities are centred on mainstream UK retail personal financial services, with participation in other non-member businesses only where these activities fit with core capabilities, diversify risks and earn a premium return for members. Nationwide also operates as a single business unit, with organisational and legal structures aligned to this, which ensures no material exposure to business-wide contagion risk.

PART XVIII – FINANCIAL INFORMATION

This Part XVIII contains:

In Section A, the Accountant's report on the Consolidated Annual Financial Information on the Society for the financial years ended 4 April 2011, 2012 and 2013.

In Section B, the Consolidated Annual Financial Information on the Society for the financial years ended 4 April 2011, 2012 and 2013.

In Section C, the unaudited condensed Consolidated Interim Financial Information for the six month periods to 30 September 2013 and 30 September 2012 as issued and published by the Society on 14 November 2013. This section also includes the Independent Review Report on the condensed Consolidated Interim Financial Information for the six months ended 30 September 2013. Information in the footnote is explanatory and was not included in the Consolidated Interim Financial Information published by the Society.

STRICTLY PRIVATE AND CONFIDENTIAL

The Directors
Nationwide Building Society
Nationwide House
Pipers Way, Swindon
SN38 1NW

22 November 2013

Dear Sirs

Nationwide Building Society

We report on the financial information set out in section B of Part XVIII below (the "**IFRS Financial Information Table**"). The IFRS Financial Information Table has been prepared for inclusion in the prospectus dated 22 November 2013 (the "**Prospectus**") of Nationwide Building Society (the "**Society**") on the basis of the accounting policies set out in note l. This report is required by item 20.1 of Annex I to the PD Regulation and is given for the purpose of complying with that item and for no other purpose.

Responsibilities

The Directors of the Society are responsible for preparing the IFRS Financial Information Table in accordance with the basis of preparation set out in the financial information and in accordance with International Financial Reporting Standards as adopted by the European Union.

It is our responsibility to form an opinion as to whether the IFRS Financial Information Table gives a true and fair view, for the purposes of the Prospectus and to report our opinion to you.

Save for any responsibility which we may have to those persons to whom this report is expressly addressed and for any responsibility arising under item 5.5.3R(2)(f) of the Prospectus Rules to any person as to the extent there provided, to the fullest extent permitted by law we do not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such other person as a result of, arising out of, or in connection with this report or our statement, required by and given solely for the purposes of complying with item 23.1 of Annex 1 to the PD Regulation, consenting to its inclusion in the Prospectus.

Basis of opinion

We conducted our work in accordance with the Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. It also included an assessment of significant estimates and judgments made by those responsible for the preparation of the financial information and whether the accounting policies are appropriate to the Society's circumstances, consistently applied and adequately disclosed.

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We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial information is free from material misstatement whether caused by fraud or other irregularity or error.

Opinion

In our opinion, the IFRS Financial Information Table gives, for the purposes of the Prospectus dated 22 November 2013, a true and fair view of the state of affairs of the Society as at the dates stated and of its profits, cash flows and changes in members' interests for the periods then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Declaration

For the purposes of item 5.5.3R(2)(f) of the Prospectus Rules we are responsible for this report as part of the Prospectus and declare that we have taken all reasonable care to ensure that the information contained in this report is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its import. This declaration is included in the Prospectus in compliance with item 1.2 of Annex III to the PD Regulation.

Yours faithfully
PricewaterhouseCoopers LLP
Chartered Accountants

Section B – Consolidated Annual Financial Information

Historical Financial Information of Nationwide Building Society

Group income statements

		For the year ended 4 April		
		2013	**2012**	**2011**
	Notes	*£m*	*£m*	*£m*
Interest receivable and similar income	3	**5,395**	5,158	4,475
Interest expense and similar charges	4	**(3,414)**	(3,568)	(2,966)
Net interest income		**1,981**	1,590	1,509
Fee and commission income	5	**558**	515	492
Fee and commission expense	6	**(113)**	(96)	(92)
Income from investments		**13**	10	4
Other operating income	7	**46**	91	7
(Losses)/gains from derivatives and hedge accounting	8	**(165)**	35	120
Total income		**2,320**	2,145	2,040
Administrative expenses	9	**(1,204)**	(1,209)	(1,128)
Depreciation, amortisation and impairments		**(216)**	(180)	(150)
Impairment loss on loans and advances to customers	11	**(589)**	(390)	(359)
Impairment losses on investment securities	15	**(2)**	(38)	(66)
Provisions for liabilities and charges	27	**(141)**	(162)	(52)
Profit before tax		**168**	166	285
Taxation	12	**10**	(14)	(61)
Profit after tax		**178**	152	224

Historical Financial Information of Nationwide Building Society

Group statements of comprehensive income

		For the year ended 4 April		
		2013	**2012**	**2011**
	Notes	*£m*	*£m*	*£m*
Profit after tax		**178**	152	224
Other comprehensive income:				
Items that will not be reclassified to the income statement				
Actuarial remeasurements of retirement benefit obligations:				
Actuarial remeasurements before tax	31	**191**	(457)	146
Taxation (charge)/credit	12	**(53)**	99	(55)
		138	(358)	91
Revaluation of property:				
Revaluation before tax		**3**	(8)	3
Taxation	12	**-**	4	1
Effect of tax rate change on other items through the general reserve	12	**(2)**	(4)	(6)
Adjustment to deferred tax transferred from acquisitions	12	**-**	-	5
Items that may subsequently be reclassified to the income statement				
Available for sale investments:				
Fair value movements taken to equity		**258**	272	308
Amount transferred to income statement		**(115)**	(78)	12
Taxation	12	**(39)**	(63)	(100)
		104	131	220
Other comprehensive income/(expense)		**243**	(235)	314
Total comprehensive income/(expense)		**421**	(83)	538

Historical Financial Information of Nationwide Building Society

Group balance sheets

		At 4 April		
		2013	**2012**	**2011**
	Notes	*£m*	*£m*	*£m*
Assets				
Cash		**7,886**	8,126	6,130
Loans and advances to banks	14	**2,522**	2,914	4,181
Investment securities – available for sale	15	**13,421**	23,325	21,540
Derivative financial instruments	16	**4,212**	4,176	3,961
Fair value adjustment for portfolio hedged risk		**872**	1,330	1,634
Loans and advances to customers	17	**159,587**	154,169	149,417
Investments in equity shares	18	**28**	29	103
Intangible assets	20	**894**	681	529
Property, plant and equipment	21	**886**	945	948
Investment properties		**8**	9	9
Accrued income and expenses prepaid		**147**	129	215
Deferred tax assets	22	**154**	229	218
Current tax assets		**15**	-	-
Other assets		**86**	67	68
Total assets		**190,718**	196,129	188,953
Liabilities				
Shares		**125,574**	125,617	122,552
Deposits from banks	23	**3,230**	3,370	2,746
Other deposits	24	**6,747**	6,899	5,809
Due to customers	25	**5,960**	5,833	5,762
Fair value adjustment for portfolio hedged risk		**150**	278	19
Debt securities in issue	26	**33,429**	38,854	37,808
Derivative financial instruments	16	**3,885**	4,287	3,234
Other liabilities		**251**	349	376
Provisions for liabilities and charges	27	**318**	295	165
Accruals and deferred income	28	**366**	369	376
Subordinated liabilities	29	**2,540**	1,644	1,973
Subscribed capital	30	**1,304**	1,625	1,510
Deferred tax liabilities	22	**30**	28	36
Current tax liabilities		**-**	5	45
Retirement benefit obligations	31	**354**	517	300
Total liabilities		**184,138**	189,970	182,711
General reserve		**6,765**	6,450	6,659
Revaluation reserve		**67**	65	70
Available for sale reserve		**(252)**	(356)	(487)
Total reserves and liabilities		**190,718**	196,129	188,953

Historical Financial Information of Nationwide Building Society

Group statements of movements in members' interests

For the year ended 4 April 2013

	General reserve	Revaluation reserve	Available for sale reserve	Total
	£m	*£m*	*£m*	*£m*
At 5 April 2012	6,450	65	(356)	6,159
Profit for the year	**178**	**-**	**-**	**178**
Net movement in available for sale reserve	**-**	**-**	**104**	**104**
Revaluation of property	**-**	**3**	**-**	**3**
Reserve transfer	**1**	**(1)**	**-**	**-**
Effect of tax rate change on other items through the general reserve	**(2)**	**-**	**-**	**(2)**
Net actuarial remeasurements of retirement benefit obligations	**138**	**-**	**-**	**138**
Total comprehensive income	**315**	**2**	**104**	**421**
At 4 April 2013	**6,765**	**67**	**(252)**	**6,580**

For the year ended 4 April 2012

	General reserve	Revaluation reserve	Available for sale reserve	Total
	£m	*£m*	*£m*	*£m*
At 5 April 2011	6,659	70	(487)	6,242
Profit for the year	152	-	-	152
Net movement in available for sale reserve	-	-	131	131
Revaluation of property	-	(4)	-	(4)
Reserve transfer	1	(1)	-	-
Effect of tax rate change on other items through the general reserve	(4)	-	-	(4)
Net actuarial remeasurements of retirement benefit obligations	(358)	-	-	(358)
Total comprehensive (expense)/income	(209)	(5)	131	(83)
At 4 April 2012	6,450	65	(356)	6,159

Historical Financial Information of Nationwide Building Society

Group statements of movements in members' interests (continued)

For the year ended 4 April 2011

	General reserve (adjusted)	Revaluation reserve	Available for sale reserve (adjusted)	Total
	£m	*£m*	*£m*	*£m*
At 5 April 2010	6,343	68	(707)	5,704
Profit for the year	224	-	-	224
Net movement in available for sale reserve	-	-	220	220
Revaluation of property	-	4	-	4
Reserve transfer	2	(2)	-	-
Effect of tax rate change on other items through the general reserve	(6)	-	-	(6)
Adjustment to deferred tax transferred from acquisitions	5	-	-	5
Actuarial remeasurements of retirement benefit obligations	91	-	-	91
Total comprehensive income	316	2	220	538
At 4 April 2011	6,659	70	(487)	6,242

Historical Financial Information of Nationwide Building Society

Group cash flow statements

		For the year ended 4 April		
		2013	**2012**	**2011**
	Notes	*£m*	*£m*	*£m*
Cash flows (used in)/generated from operating activities				
Profit before tax		**168**	166	285
Adjustments for:				
Non-cash items included in profit before tax	39	**922**	508	292
Changes in operating assets	39	**(6,615)**	(4,801)	5,805
Changes in operating liabilities	39	**(6,155)**	7,299	(2,802)
Interest paid on subordinated liabilities		**(93)**	(114)	(90)
Interest paid on subscribed capital		**(88)**	(91)	(91)
Purchase of retail mortgages portfolio		**-**	(1,104)	-
Taxation		**(27)**	(37)	(33)
Net cash flows (used in)/generated from operating activities		**(11,888)**	1,826	3,366
Cash flows generated from/(used in) investing activities				
Purchase of investment securities		**(3,010)**	(13,140)	(13,525)
Sale and maturity of investment securities		**14,030**	12,570	14,898
Purchase of property, plant and equipment		**(53)**	(192)	(138)
Sale of property, plant and equipment		**10**	8	13
Purchase of intangible assets		**(295)**	(213)	(219)
Sale of investment properties		**-**	-	1
Sale of investment in equity shares		**12**	72	2
Dividends received from non-Group entities		**6**	5	4
Net cash flows generated from/(used in) investing activities		**10,700**	(890)	1,036
Cash flows generated from/(used in) financing activities				
Maturity of subordinated liabilities		**(200)**	(360)	(719)
Redemption of subscribed capital		**(305)**	-	-
Issue of subordinated liabilities		**1,068**	-	630
Net cash flows generated from/(used in) financing activities		**563**	(360)	(89)
Net (decrease)/increase in cash		**(625)**	576	4,313
Cash and cash equivalents at start of year		10,700	10,124	5,811
Cash and cash equivalents at end of year	39	**10,075**	10,700	10,124

Historical Financial Information of Nationwide Building Society
Notes to the Historical Financial Information

1 Statement of accounting policies

Basis of preparation

This historical financial information has been prepared in accordance with International Financial Reporting Standards (IFRS) and interpretations (IFRICs) issued by the Interpretations Committee, as published by the International Accounting Standards Board (IASB), and as adopted by the European Union, and with those parts of the Building Societies Act 1986 and Building Societies (Accounts and Related Provisions) Regulations 1998 (as amended) applicable to organisations reporting under IFRS. The historical financial information has been prepared under the historical cost convention as modified by the revaluation of investment properties, land and buildings, available for sale assets, certain investments in equity shares and certain other deposits and derivatives. A summary of the Group's accounting policies is set out below. The accounting policies have been consistently applied.

The preparation of the historical financial information in conformity with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the historical financial information and the reported amounts of revenues and expenses during the year. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates. Further details on critical accounting estimates are given in note 2.

Going Concern

The Directors have considered the working capital report and forecasts prepared by management in their assessment of going concern.

In preparing the financial information the Directors have satisfied themselves that it is reasonable for them to conclude it is appropriate to adopt the going concern basis in accordance with the Financial Reporting Council's guidance 'Going Concern and Liquidity Risk: Guidance for Directors of UK Companies 2009' and IAS 1 'Presentation of Financial Statements'.

The Group meets its day to day liquidity requirements through managing both its retail and wholesale funding sources and is required to maintain a sufficient buffer over regulatory capital requirements in order to continue to be authorised to carry on its business.

The Group's business activities, its financial position and capital structure, together with factors likely to affect its future development and performance have been considered together with the Group's risk management and control processes for managing exposure to credit, liquidity, funding market and operational risks.

The Group's forecasts and projections, taking account of possible changes in trading performance and funding retention, and including stress testing and scenario analysis, show that the Group will be able to operate at adequate levels of both liquidity and capital for the foreseeable future. Furthermore the Group's current capital ratio is in excess of the PRA requirement.

After making enquiries the Directors are satisfied that the Group has adequate resources to continue in business for the foreseeable future and that, therefore, it is appropriate to adopt the going concern basis in preparing this financial information.

Changes in accounting policy

The following IFRS pronouncements, relevant to the Group, were adopted in the Group's Annual Report and Accounts with effect from 5 April 2012 and have been applied in the historical financial information:

- IFRS 7 Disclosures – Transfers of Financial Assets: The amendment requires additional disclosures to help evaluate risk exposures relating to the transfer of financial assets and the effect of those risks on an entity's financial position, particularly those that involve securitisation of financial assets. Additional disclosure is provided in note 17.

- IAS 12 Deferred Tax – Recovery of Underlying Assets: The amendment provides a practical approach for measuring deferred tax liabilities and assets when investment property is measured using the fair value model in IAS 40 Investment Property. The amendment has had no significant impact for the Group.

- IAS 1 Presentation of Items of Other Comprehensive Income (early adopted). This change requires the grouping of items presented in the statements of other comprehensive income on the basis of whether they are potentially reclassifiable to the income statement in subsequent periods.

During the year ended 4 April 2013, the Group has recommenced the practice of fair valuing a portion of mortgage commitments on the balance sheet to alleviate an accounting mismatch. The fair value of mortgage commitments is included within other assets. Movements in the fair value of mortgage commitments are included in (losses)/gains from derivatives and hedge accounting in the income statement.

The following IFRS pronouncements, relevant to the Group, are expected to be adopted in the Group's Annual Report and Accounts with effect from 5 April 2013 and have been applied in the historical financial information:

- IFRS 7 Disclosures – Offsetting Financial Assets and Financial Liabilities: The amendments require disclosure of the effect or potential effects of netting arrangements on an entity's financial position including financial instruments that are subject to an enforceable master netting arrangement or similar agreement. The amendments have been applied retrospectively with the additional disclosures provided in note 37.

- IAS 19 (Revised) Employee Benefits: The revised standard updates the recognition, presentation and disclosures of retirement benefit plans. The most significant impact for the Group is the replacement of the interest cost and expected return on plan assets with a single interest amount calculated by applying the discount rate to the net defined asset or liability. The changes have been applied retrospectively and comparatives restated accordingly. In the year ended 4 April 2013 profit before tax has decreased by £42 million (2012: £37 million, 2011: £32 million) with an equivalent increase in other comprehensive income. The tax charge for the year ended 4 April 2013 has decreased by £10 million (2012: £10 million, 2011: £8 million) with an equivalent decrease in other comprehensive income. There has been no impact on the Group's total assets, net assets or reserves as a result of the restatement.

Future accounting developments

The following pronouncements, relevant to the Group, have been adopted by the EU but are not yet effective at 4 April 2013 and have not been applied in preparing the historical financial information.

Pronouncement	Nature of change	Effective date
IFRS 13 Fair Value Measurement	The standard has replaced guidance on fair value measurement in previous IFRS accounting publications with a single standard. The standard provides guidance on the calculation of the fair value of financial and non-financial assets and liabilities and additionally requires enhanced disclosures. The standard, which is expected to be adopted in the Group's Annual Report and Accounts with effect from 5 April 2013, requires prospective application. The new standard is not expected to have a significant impact on the measurement of the Group's assets or liabilities but is expected to have a significant requirement for enhanced disclosure. It is expected that this will include additional information on valuation techniques and inputs used in measuring fair value and significant detail on the fair value hierarchy.	Accounting periods (AP) beginning on or after 1 January 2013
IFRSs 10 – 12 and amendments to IAS 27 and 28	A package of five new and revised standards addressing the accounting for consolidation, involvements in joint arrangements and disclosure of involvements with other entities. Nationwide is currently assessing whether there are any unconsolidated entities that will be consolidated under the new standards and amendments. Enhanced disclosures will be required of interests in other entities.	AP beginning on or after 1 January 2014
IAS 32 Offsetting Financial Assets and Financial Liabilities	Clarifies existing offsetting criteria. The amendment is not expected to have an impact for the Group.	AP beginning on or after 1 January 2014

The following pronouncements, relevant to the Group, are neither adopted by the EU nor effective at 4 April 2013 and have therefore not been applied in preparing the historical financial information.

Pronouncement	**Nature of change**	**Effective date**
IFRS 9 Financial Instruments	The new standard addresses Phase 1 of the IASB's project to replace IAS 39 Financial Instruments: Recognition and Measurement and requires financial assets to be classified as at amortised cost or at fair value. The available for sale (AFS) category for financial assets, currently used by the Group, will no longer be available. Financial liabilities will be treated as at present under IAS 39, with the exception that where the Group opts to fair value, the movement in fair value due to own credit risk would be directly recognised in other comprehensive income unless this results in an accounting mismatch. The Group has only opted to fair value its liabilities on protected equity bonds. The IASB is currently proposing amendments to the above classification and measurement requirements of IFRS 9 Phase 1. Phases 2 and 3 of IFRS 9 will address the impairment of financial assets and general (micro) hedge accounting respectively. The proposals are yet to be finalised and, therefore, it is not possible to estimate the financial effects, although it is expected that IFRS 9 will have a significant impact for the Group, in line with the wider industry. In July 2013, the IASB tentatively decided that the effective date of IFRS 9 will be deferred from 1 January 2015 to an unspecified date pending the finalisation of the standard.	AP beginning on or after 1 January 2015
IFRIC 21 Levies	The interpretation clarifies the accounting for government imposed levies in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets. IFRIC 21 is not expected to impact the Group's full year results.	AP beginning on or after 1 January 2014

Basis of consolidation

The Group accounts consolidate the assets, liabilities and results of the Society and all of its subsidiaries and consistent accounting policies are used throughout the Group for the purposes of the consolidation.

Subsidiaries are all entities, including special purpose entities, over which the Society has the power to govern the financial and operating policies generally. Subsidiaries are fully consolidated from the date on which control is transferred to the Group and are de-consolidated from the date that control ceases. Upon consolidation, inter-company transactions, balances and unrealised gains on intra-Group transactions are eliminated.

The Directors consider it appropriate for administrative and commercial reasons that subsidiary undertakings have financial years ending on 31 March. Certain special purpose entities have year ends other than 31 March and are therefore consolidated using internal management accounts prepared to that date. Adjustment is made for individually significant transactions arising between 31 March and the Society's year end.

Securitisation transactions

The Group has securitised certain mortgage loans by the transfer of the loans to special purpose entities (SPEs) controlled by the Group. The securitisation enables a subsequent issuance of debt, either by the Group or the SPEs, to investors who gain the security of the underlying assets as collateral. The SPEs are fully consolidated into the Group accounts.

As explained in note 17, the Group has also entered into self issuances of debt to be used as collateral for repurchase ('repo') and similar transactions.

Interest receivable and interest expense

For instruments measured at amortised cost the effective interest rate (EIR) method is used to measure the carrying value of a financial asset or liability and to allocate associated interest income or expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

In calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument (for example, early redemption penalty charges) but does not consider future credit losses. The calculation includes all fees received and paid and costs borne that are an integral part of the effective interest rate and all other premiums or discounts above or below market rates.

Interest income on available for sale assets, derivatives and other financial assets at fair value through the income statement is included in interest receivable and similar income. Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Fees and commissions

Fees and commissions not directly attributable to generating a financial instrument are recognised on the accruals basis as services are provided, or on the performance of a significant act.

Segmental reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the Executive Committee. The Executive Committee, which is responsible for allocating resources and assessing performance of operating segments, has been identified as the chief operating decision maker. The segmental results presented in note 13 have been restated from those previously published, following an update in funding costs due to a change in capital allocation methodology.

No segmental analysis is presented on geographical lines because substantially all of the Group's activities are in the United Kingdom, with a small level of operations in the Isle of Man and the Republic of Ireland.

Intangible assets

(a) Goodwill

Goodwill represents the excess of the consideration transferred for an acquisition over the fair value of the Group's share of the net identifiable assets (including the fair value of contingent liabilities) of the acquired business at the date of acquisition. Goodwill on acquisitions is carried at cost less accumulated impairment losses and is included as an intangible asset.

Goodwill is tested for impairment at least annually. For the purpose of impairment testing, goodwill is allocated to cash generating units. If the carrying value of the cash generating unit exceeds its recoverable value, goodwill is considered impaired. The estimation of recoverable value is based on value in use calculations incorporating forecasts by management of post tax profits for the subsequent five years, discounted at a risk-adjusted interest rate appropriate to the cash generating unit. While forecasts are compared with actual performance, expected profits naturally reflect management's view of future performance.

(b) Computer software

IAS 38 Intangible Assets requires the capitalisation of certain expenditure relating to software development costs. Software development costs are capitalised if it is probable that the asset created will generate future economic benefits and are carried at cost less accumulated amortisation. Costs incurred to establish technological feasibility or to maintain existing levels of performance are recognised as an expense.

Web development costs are capitalised where the expenditure is incurred on developing an income generating website.

Software costs, including computer application software licences are recognised as intangible fixed assets and amortised using the straight line method over their useful lives (3 to 10 years). The amortisation periods used are reviewed annually.

Computer software is reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Where the carrying amount is not recoverable the asset is written down immediately to the estimated recoverable amount, based on value in use calculations.

Where applicable, directly attributable borrowing costs incurred in the construction of qualifying assets are capitalised.

(c) Other intangible assets

Other intangibles, which largely represent core deposit intangibles acquired by the Group, are carried at cost less accumulated amortisation and impairment and are amortised using the straight line method over their estimated useful lives of between 5 and 10 years. The amortisation period is reviewed annually.

Other intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Where the carrying amount is not recoverable the asset is written down immediately to the estimated recoverable amount, based on value in use calculations.

Leases

The Group has entered into operating leases for land and buildings. Operating leases are leases that do not transfer substantially all the risks and rewards incidental to ownership to the lessee. Operating lease payments and receipts are charged or credited to the income statement on a straight line basis over the life of the lease.

Taxation including deferred tax

Corporation tax payable on profits, based on the applicable tax law in each jurisdiction, is recognised as an expense in the period in which profits arise. The tax effects of tax losses available for carry forward are recognised as an asset when it is probable that future taxable profits will be available against which these losses can be utilised.

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the historical financial information. Deferred tax is determined using tax rates and laws that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax assets are recognised where it is probable that future taxable profits will be available against which the temporary differences can be utilised. Deferred tax is provided on temporary differences arising from investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the difference will not reverse in the foreseeable future.

Tax related to the fair value re-measurement of available for sale assets, which is charged or credited to other comprehensive income, is also credited or charged to other comprehensive income and is subsequently reclassified from other comprehensive income to the income statement together with the deferred gain or loss.

Tax related to movements in the valuation of property, which are charged or credited to other comprehensive income and accumulated in the revaluation reserve, is also credited or charged to other comprehensive income and accumulated in the revaluation reserve.

Tax related to actuarial remeasurements of retirement benefit obligations, which are charged or credited to other comprehensive income, is also credited or charged to other comprehensive income.

Deferred income tax assets and liabilities are offset where there is a legally enforceable right to offset current tax assets against current tax liabilities and where the deferred income tax assets and liabilities related to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle on a net basis.

Property, plant and equipment

Freehold and long leasehold properties comprise mainly branches and office buildings.

Branches and non-specialised buildings are stated at revalued amounts, being the fair value, determined by market based evidence, at the date of the valuation less any subsequent accumulated depreciation and subsequent impairment. Valuations are completed annually, as at 4 April, by independent surveyors.

Increases in the valuations of branches and non-specialised buildings are credited to other comprehensive income except where they reverse decreases for the same asset previously recognised in the income statement, in which case the increase in the valuation is recognised in the income statement. Decreases in valuations are recognised in the income statement except where they reverse amounts previously credited to other comprehensive income for the same asset, in which case the decrease in valuation is recognised in other comprehensive income.

Other property, plant and equipment, including specialised administration buildings and short leasehold buildings, are included at historical cost less accumulated depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items, major alterations and refurbishments. Where applicable, directly attributable borrowing costs incurred in the construction of qualifying assets are capitalised.

Land is not depreciated. Depreciation on other assets commences when the assets are ready for their intended use and is calculated using the straight line method to allocate their cost or valuation over the following estimated useful lives:

Branches and non-specialised buildings	60 years
Specialised administration buildings	up to 60 years
Short leasehold buildings	the period of the lease
Plant and machinery	5 to 15 years
Equipment, fixtures, fittings and vehicles	3 to 10 years

Estimated useful lives are reviewed annually and adjusted, if appropriate, in the light of technological developments, usage and other relevant factors.

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Where the carrying amount is not recoverable the asset is written down immediately to the estimated recoverable amount.

Gains and losses on disposals are included in other operating income in the income statement.

Investment properties

Investment properties, which comprise properties held for rental, are stated at fair value. The properties are revalued annually, as at 4 April, by independent surveyors supported by market evidence. Changes in fair value are included in the income statement. Depreciation is not charged on investment properties.

Employee benefits

(a) Pensions

The Group operates a number of defined benefit and defined contribution pension arrangements. A defined benefit plan is one that defines the benefit an employee will receive on retirement, depending on such factors as age, length of service and salary.

The liability recognised in the balance sheet in respect of the defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets. The defined benefit obligation is calculated by the independent actuaries using the projected unit credit method and assumptions agreed with the Group. The present value of the defined benefit obligation is determined by discounting the estimated future cash flows using interest rates of high-quality corporate bonds that have terms to maturity approximating to the terms of the related pension liability.

Actuarial remeasurements arise from experience adjustments (the effects of differences between previous actuarial assumptions and what has actually occurred) and changes in actuarial assumptions. Actuarial remeasurements are recognised in full, in the year they occur, in other comprehensive income.

The Group also operates defined contribution arrangements. A defined contribution arrangement is one into which the Group and the employee pay fixed contributions, without any further obligation to pay further contributions. Payments to defined contribution schemes are charged to the income statement as they fall due.

Past service costs are recognised immediately in the income statement.

(b) Other post retirement obligations

The Group provides post retirement healthcare to a small number of former employees. The Group recognises this obligation and the actuarial remeasurements in a similar manner to the defined benefit pension plans.

(c) Other long term employee benefits

The cost of bonuses payable 12 months or more after the end of the year in which they are earned is recognised in the year in which the employees render the related service and when there is an obligation to pay a bonus under the terms of the scheme.

(d) Short term employee benefits

The cost of short term employee benefits, including wages and salaries, social security costs and healthcare for current employees, is recognised in the year of service.

Provisions

A provision is recognised where there is a present obligation as a result of a past event, it is probable that the obligation will be settled and it can be reliably estimated.

Nationwide has an obligation to contribute to the Financial Services Compensation Scheme (FSCS) to enable the FSCS to meet compensation claims from, in particular, retail depositors of failed banks. A provision is recognised to the extent it can be reliably estimated and when Nationwide has an obligation in accordance with IAS 37. The amount provided is based on information received from the FSCS, forecast future interest rates and Nationwide's historic share of industry protected deposits.

Financial assets

The Group classifies its financial assets at inception into the following four categories:

(a) Financial assets at fair value through the income statement

This category consists of derivative financial assets. The Group does not hold any other financial assets classified as held for trading.

Assets in this category are carried at fair value. The fair values of derivative instruments are calculated by discounted cash flow models using yield curves that are based on observable market data or are based on valuations obtained from counterparties.

Gains and losses arising from the changes in the fair values are recognised in the income statement.

The Group has a practice of fair valuing a portion of mortgage commitments on the balance sheet to alleviate an accounting mismatch. The fair value of mortgage commitments is included within other assets. Movements in the fair value are included in (losses)/gains from derivatives and hedge accounting in the income statement.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Group's residential and commercial mortgage loans, unsecured lending, loans to banks and cash are classified as loans and receivables.

Loans are recognised when the funds are advanced to customers. Loans and receivables are carried at amortised cost using the effective interest rate method less provisions for impairment.

Loans and receivables acquired through a business combination or portfolio acquisition are recognised at fair value at the acquisition date. The fair value at acquisition becomes the new amortised cost for acquired loans and receivables. Fair value adjustments are made to reflect both credit and interest rate risk associated with the acquired loan assets.

For a portfolio acquisition the fair value is normally assumed to be the transaction price (i.e. the consideration paid). However, the fair value may differ from the transaction price in certain circumstances. In these circumstances the fair value is based on a valuation technique whose variables only include data from observable markets (for example, interest rates prevailing for similar instruments). Where such circumstances exist, an immediate gain or loss is recognised on acquisition, being the difference between the consideration paid and the fair value. The gain or loss on the acquisition is included in other operating income.

The fair value adjustment in relation to interest rate risk is amortised to the income statement over the remaining life of the assets. In the case of the fair value adjustment for credit risk, the balance is reduced by actual write offs of loans during the period. Additionally, a review is performed to ensure that the amount of the credit loss fair value adjustment still held is adequate to cover future expected losses. This review identifies any additional amount of provision to be immediately recognised where the remaining adjustment is less than incurred losses on the loans, or any surplus amount of fair value adjustment which can be released to the income statement as it is no longer required to cover future expected losses. Further information is provided in note 3.

(c) Available for sale (AFS)

AFS assets are non-derivative financial assets that are not classified into either of the two categories above. AFS assets are measured at fair value using, in the majority of cases, market prices or, where markets have become inactive, prices obtained from market participants. In sourcing valuations, the Group makes use of a consensus pricing service, in line with standard industry practice. In cases where market prices or prices obtained from market participants are not available, discounted cash flow models are used. Further information is provided in note 36.

Interest on available for sale assets is recognised using the effective interest rate (EIR) method.

Unrealised gains and losses arising from changes in the fair values are recognised in other comprehensive income, except for impairment losses and foreign exchange gains and losses, which are recognised in the income statement. Gains and losses arising on the sale of AFS assets are recognised in the income statement, including any cumulative gains or losses previously recognised in other comprehensive income, which are reclassified to the income statement.

(d) Investments in equity

Investments in equity include certain investments which are held at fair value. Movements in fair value, except impairments, are recognised in other comprehensive income and accumulated in the AFS reserve.

The Group has not classified any financial assets into the held to maturity category and has not reclassified any financial assets between categories.

Purchases and sales of financial assets are accounted for at trade date. Financial assets are derecognised when the rights to receive cash flows have expired or where the assets have been transferred and substantially all of the risks and rewards of ownership have been transferred.

The impact of hedging on the measurement of financial assets is detailed in the derivatives and hedge accounting policy below.

Impairment of financial assets

(a) Assets carried at amortised cost

The Group assesses at each balance sheet date whether, as a result of one or more events that occurred after initial recognition, there is objective evidence that a financial asset or group of financial assets is impaired. Evidence of impairment may include:

i) indications that the borrower or group of borrowers is experiencing significant financial difficulty

ii) default or delinquency in interest or principal payments, or

iii) debt being restructured to reduce the burden on the borrower.

The Group first assesses whether objective evidence of impairment exists either individually for assets that are separately significant or individually or collectively for assets that are not separately significant. If there is no objective evidence of impairment for an individually assessed asset it is included in a group of assets with similar credit risk characteristics and collectively assessed for impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. The resultant provisions are deducted from the appropriate asset values in the balance sheet.

The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Group to reduce any differences between loss estimates and actual loss experience.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the provision is adjusted and the amount of the reversal is recognised in the income statement.

Where a loan is not recoverable, it is written off against the related provision for loan impairment once all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of impairment losses recorded in the income statement.

Retail loans

For retail loans cash flows are estimated based on past experience combined with Nationwide's view of the future considering the following factors:

i) Nationwide's exposure to the customer

ii) based on the number of days in arrears at the balance sheet date, the likelihood that a loan will progress through the various stages of delinquency and ultimately be written off

iii) the amount and timing of expected receipts and recoveries

iv) the realisable value of any security at the estimated date of sale

v) the likely deduction of any costs involved in the recovery of amounts outstanding.

The provision methodology recognises previous arrears as a driver of future possible default and therefore accounts which have either capitalised arrears or have been in arrears in the last 12 months typically attract a higher provision level.

Commercial loans

In assessing objective evidence of a loss event for commercial loans, the following key indicators are considered:

i) contractually due payments exceeding 35 days in arrears

ii) high loan to value or low interest cover ratio

iii) other covenant breaches

iv) loss of significant tenants or other decreases in tenant quality

v) the probability of the borrower entering bankruptcy

vi) restructuring of the debt relating to the borrower's financial difficulties ('forbearance')

vii) local economic conditions (for example, where this impacts on the value of underlying collateral).

Where there is objective evidence of impairment, Nationwide assesses cash flows on a case by case basis considering the following factors:

i) Nationwide's aggregate exposure to the customer

ii) the viability of the customer's business model and their capacity to trade successfully out of financial difficulties and generate sufficient cash flow to service debt obligations

iii) the amount and timing of expected receipts and recoveries

iv) the likely dividend available on liquidation or bankruptcy

v) the extent of other creditors' claims ranking ahead of Nationwide's, and the likelihood of other creditors continuing to support the borrower

vi) the complexity of determining the aggregate amount and ranking of all creditor claims and the extent to which legal and insurance uncertainties are evident

vii) the realisable value of security at the expected date of sale (or other credit mitigants) and likelihood of successful repossession

viii) the likely deduction of any costs involved in recovery of amounts outstanding

ix) when available, the secondary market price of the debt.

Loans subject to individual impairment assessment, whose terms have been renegotiated, are subject to ongoing review to determine whether they remain impaired or are considered to be past due.

Where a loan is renegotiated on different terms such that it is substantially a different loan, the loan is derecognised and a new loan is recognised at its fair value.

For those loans, for which no individual impairment is recognised, a collective impairment assessment is made, taking account of the following factors:

i) size of the loan

ii) arrears status

iii) historical loss experience (adjusted for current market conditions)

iv) estimated period between impairment occurring and the loss being identified ('emergence period')

(b) Available for sale (AFS) assets

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. If any such evidence exists for AFS assets, the cumulative loss, measured as the difference between the current amortised cost and the current fair value, less any impairment loss on that asset previously recognised, is recognised in the income statement.

A subsequent decline in the fair value of an AFS asset is recognised in the income statement when there is further objective evidence of impairment as a result of further decreases in the estimated future cash flows of the financial asset. Where there is no further objective evidence of impairment, the decline in the fair value of the financial asset is recognised in other comprehensive income.

If the fair value of an AFS debt asset increases in a subsequent period, and the increase can be objectively related to an event occurring after the impairment loss was recognised in the income statement, the impairment loss is reversed through the income statement to the extent of the increase in fair value. Impairment losses recognised on AFS equity shares cannot be reversed.

Financial liabilities

Borrowings, including shares, deposits, debt securities in issue and subordinated liabilities are recognised initially at fair value, being the issue proceeds net of premiums, discounts and transaction costs incurred.

With the exception of deposits relating to the sale of protected equity bonds all borrowings are subsequently measured at amortised cost using the effective interest rate method. Amortised cost is adjusted for the amortisation of any premiums, discounts and transaction costs. The amortisation is recognised in interest expense and similar charges using the effective interest rate method. The Group does not hold any financial liabilities classified as held for trading.

Permanent interest bearing shares (subscribed capital) are classified as financial liabilities.

Financial liabilities are derecognised when the obligation is discharged, cancelled or has expired.

Borrowings that are designated as hedged items are subject to measurement under the hedge accounting requirements described in the derivatives and hedge accounting policy below.

The financial liabilities of dormant shares and deposit accounts have been extinguished when balances have been transferred to the Government-backed unclaimed asset scheme under the terms of the Dormant Accounts and Building Society Accounts Act 2008 with no impact on the income statement.

Protected equity bonds (PEBs)

Certain non-derivative financial liabilities relating to the sale of PEBs by the Group on behalf of Legal & General, included within other deposits, have been designated at fair value upon initial recognition in the balance sheet. Changes in fair value are recognised through the income statement in gains from derivatives and hedge accounting. The PEBs are economically matched using equity-linked derivatives, which do not meet the requirements for hedge accounting. Recording changes in fair value of both the derivatives and the related liabilities through the income statement most closely reflects the economic reality of the transactions. In so doing, this accounting treatment eliminates a measurement inconsistency that would otherwise arise from valuing the PEBs at amortised cost and the derivatives at fair value.

In measuring fair value, separate debit valuation adjustments are made for own credit risk to the extent not already included in the PEBs valuation.

Income received from Legal & General upon inception of the PEB transaction is deferred and recognised in interest expense and similar charges in the income statement on an effective interest basis over the term of the product where it partially offsets interest incurred on the equity-linked derivatives.

Derivatives and hedge accounting

Derivatives are entered into to reduce exposures to fluctuations in interest rates, exchange rates, market indices and credit risk and are not used for speculative purposes.

(a) Derivative financial instruments

Derivatives are carried at fair value with movements in fair values recorded in the income statement. Derivative financial instruments are principally valued by discounted cash flow models using yield curves that are based on observable market data or are based on valuations obtained from counterparties.

For collateralised positions the Group uses discount curves based on overnight indexed swap rates, and for non-collateralised positions the Group uses discount curves based on term Libor rates.

In the first instance fair values are calculated using mid prices. With the exception of derivatives hedging liabilities relating to the sale of PEBs, an adjustment is then made to derivative assets and liabilities to value them on a bid and offer basis respectively. The bid-offer adjustment is calculated on a portfolio basis and reflects the costs that would be incurred if substantially all residual net portfolio market risks were closed out using available hedging instruments or by disposing of or unwinding actual positions. The methodology for determining the bid-offer adjustments involves netting between long and short positions and the grouping of risk by strike and term in accordance with hedging strategy. Bid-offer spreads are derived from market sources such as broker data and are reviewed periodically. The derivatives hedging PEBs are not traded in an active market and are therefore valued at mid price.

In measuring fair value, separate credit valuation and debt valuation adjustments are made for counterparty or own credit risk to the extent not already included in the valuation.

All derivatives are classified as assets where their fair value is positive and liabilities where their fair value is negative. Where there is the legal ability and intention to settle net, then the derivative is classified as a net asset or liability, as appropriate.

Where cash collateral is received, to mitigate the risk inherent in amounts due to the Group, it is included as a liability within deposits from banks. Where cash collateral is given, to mitigate the risk inherent in amounts due from the Group, it is included as an asset in loans and advances to banks. Where securities collateral is received the securities are not recognised in the accounts as the Group does not obtain the risks and rewards of the securities. Where securities collateral is given, the securities have not been derecognised as the Group has retained substantially all the risks and rewards of ownership.

(b) Embedded derivatives

A number of complex contracts contain both a derivative and a non-derivative component, in which case the derivative is termed an embedded derivative. If the economic characteristics and risks of embedded derivatives are not closely related to those of the host contract, and the overall contract itself is not carried at fair value, the embedded derivative is accounted for separately and reported at fair value with gains and losses being recognised in the income statement.

(c) Hedge accounting

When transactions meet the criteria specified in IAS 39, the Group applies fair value hedge accounting. In a micro hedge, the carrying value of the underlying asset or liability (‘the hedged item’) is adjusted for the hedged risk to offset the fair value movement of the related derivative. In the case of a portfolio hedge, an adjustment is included in the fair value adjustments for portfolio hedged risk category on the balance sheet to offset the fair value movement in the related derivative.

To qualify for hedge accounting the hedge relationship must be clearly documented at inception and the derivative must be expected to be highly effective in offsetting the hedged risk. Effectiveness must be tested throughout the life of the hedge relationship.

The Group discontinues hedge accounting when:

i) it is evident from testing that a derivative is not, or has ceased to be, highly effective as a hedge

ii) the derivative expires, or is sold, terminated or exercised or

iii) the underlying item matures or is sold or repaid.

The Group may also decide to cease hedge accounting even though the hedge relationship continues to be highly effective by ceasing to designate the financial instrument as a hedge.

If the derivative no longer meets the criteria for hedge accounting, the cumulative fair value hedge adjustment is amortised over the period to maturity of the previously designated hedge relationship. If the underlying item is sold or repaid, the unamortised fair value adjustment is immediately recognised in the income statement.

Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet if, and only if, there is a currently enforceable legal right to set off the recognised amounts and there is an intention to settle on a net basis, or to realise an asset and settle the liability simultaneously.

Sale and repurchase agreements (including stock borrowing and lending) and collateralised total return swaps

Investment and other securities may be lent or sold subject to a commitment to repurchase them at a pre-determined price (a repo) or a right to continue to receive all future cash flows and changes in capital value on collateral pledged (a total return swap). Such securities are retained on the balance sheet when substantially all the risks and rewards of ownership (typically, the interest rate risk and credit risk on the asset) remain within the Group, and the counterparty liability is included separately on the balance sheet as appropriate.

Similarly, where the Group borrows or purchases securities subject to a commitment to resell them (a reverse repo) or settle all future cash flows and changes in capital value to a third party on collateral held (a reverse total return swap) but does not acquire the risks and rewards of ownership, the transactions are treated as collateralised loans, and the securities are not included in the balance sheet.

The difference between sale and repurchase price is accrued over the life of the agreements using the effective interest rate method.

Foreign currency translation

The consolidated historical financial information is presented in sterling, which is the functional currency of the Group. Items included in the historical financial information of each of the Group's entities are measured using their functional currency. Foreign currency transactions are translated into sterling using the exchange rates prevailing at the dates of the transactions. Monetary items denominated in foreign currencies are retranslated at the rate prevailing at the year end.

Foreign exchange gains and losses resulting from the retranslation and settlement of these items are recognised in the income statement as disclosed in notes 3 and 4.

Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than three months maturity from the date of acquisition, including: cash, treasury bills and other eligible bills, loans and advances to banks, other amounts due from banks and short term government securities.

Contingent liabilities

During the ordinary course of business the Group is subject to threatened or actual legal proceedings. All such material cases are periodically reassessed, with the assistance of external professional advisers where appropriate, to determine the likelihood of incurring a liability. The Group does not disclose the contingent liabilities associated with such claims where they cannot reasonably be estimated or where such disclosure could be seriously prejudicial to the conduct of the claims.

2 Judgements in applying accounting policies and critical accounting estimates

The Group has to make judgements in applying its accounting policies which affect the amounts recognised in the accounts. In addition, estimates and assumptions are made that could affect the reported amounts of assets and liabilities within the following financial year. The most significant areas where judgements and estimates are made are disclosed in the following notes:

Area of significant judgement and estimate	Note
Mortgage effective interest rates (EIR)	3
Savings EIR	4
Impairment provisions on loans and advances	11
Impairment of available for sale assets	15
Fair value adjustments in relation to acquired assets	17
Provisions for customer redress	27
Retirement benefit obligations (pensions)	31

The fair value of financial instruments has, in the years ended 4 April 2011 and 2012, been disclosed as a critical accounting estimate. This pertained to derivative financial instruments, available for sale assets and the liability in relation to the protected equity bond products which are stated at fair value. On review of these disclosures in the year ended 4 April 2013, accounting estimates in this area are not considered to be critical to the preparation of the historical financial information. Therefore there is no further disclosure regarding accounting judgements and estimates relating to the fair value of financial instruments.

3 Interest receivable and similar income

	2013	2012	2011
	£m	*£m*	*£m*
On residential mortgages	**4,851**	4,924	5,004
On other loans to non connected undertakings	**1,130**	1,158	1,148
On investment securities	**1,280**	1,071	1,029
On other liquid assets	**49**	56	32
Net expense on financial instruments hedging assets	**(1,915)**	(2,051)	(2,738)
	5,395	5,158	4,475

Included within interest receivable and similar income is interest accrued on loans three or more months in arrears of £43 million (2012: £54 million, 2011: £58 million) and the unwind of the discount on the impairment provisions of £46 million (2012: £35 million, 2011: £38 million). Further detail is included in note 11.

Interest receivable on residential mortgages includes adjustments to reflect the changes to the Group's effective interest rate assumptions, including a charge of £18 million (2012: credit of £32 million, 2011: credit of £46 million) in respect of an update of early redemption charges and a credit of £2 million (2012: £70 million, 2011: £nil) which resulted from an update to the assumptions applicable to the recognition of mortgage fee income.

Interest receivable on residential mortgages also includes a £48 million (2012: £nil, 2011: £33 million) release of excess credit risk fair value adjustments in relation to the balances taken on through the acquisition of the Derbyshire and Cheshire building societies and core parts of the Dunfermline Building Society.

In the year ended 4 April 2012, interest receivable on other loans, which are primarily commercial loans and loans to registered social landlords included a £5 million (2011: £3 million) release of excess credit risk fair value adjustments in relation to the balances taken on through the acquisition of the Derbyshire and Cheshire building societies and the Dunfermline registered social landlord loan portfolio.

Interest receivable on investment securities includes a net gain of £139 million (2012: £98 million, 2011: £47 million) relating to the sale of investment securities as part of the management of the liquidity portfolio.

Critical accounting estimates and judgements

The Group uses the effective interest rate (EIR) method to recognise income from certain financial assets (including residential and commercial mortgages) held at amortised cost. To calculate the appropriate EIR recognition the Group makes assumptions of the expected lives of financial instruments and the level of income to be recognised, including the anticipated level of early redemption charges for residential mortgages. Certain fees in relation to residential mortgages are recognised over the deal period to which they relate.

The impact of a one year change in the expected lives assumption would be a £4 million (2012: £4 million, 2011: £4 million) change to the value of the loans. The impact of a 10% change in the anticipated level of future early redemption charges would be a change to the value of the loans of £7 million at 4 April 2013 (2012: £7 million, 2011 £6 million).

4 Interest expense and similar charges

	2013	**2012**	**2011**
	£m	*£m*	*£m*
On shares held by individuals	**2,741**	2,826	2,511
On subscribed capital	**89**	96	96
On deposits and other borrowings:			
• Subordinated liabilities	**96**	108	110
• Other	**210**	252	258
On debt securities in issue	**944**	1,093	915
Foreign exchange differences	**-**	12	3
Net income on financial instruments hedging liabilities	**(689)**	(823)	(952)
Interest on net defined benefit pension liability (note 31)	**23**	4	25
	3,414	3,568	2,966

Interest expense for the year ended 4 April 2013 is net of a £60 million credit which resulted from an update of the Group's effective interest rate assumptions in relation to the interest on savings accounts which offer an initial bonus.

Critical accounting estimates and judgements

The Group's effective interest rate (EIR) adjustment for savings bonus interest is dependent on management's estimates of savings balance retention at the end of the bonus period, with the main sensitivity relating to the proportion of balances retained at the point the bonus expires. If the retention expectation at the point of bonus expiry is reduced by 10% (in absolute terms) the EIR adjustment would be reduced by £3 million for the year ended 4 April 2013 (2012: £nil, 2011: £nil).

5 Fee and commission income

	2013	2012	2011
	£m	*£m*	*£m*
Mortgage related fees	**34**	37	36
Banking and savings fees	**242**	235	218
General insurance fees	**160**	140	142
Other insurance fees	**43**	32	32
Other fees and commissions	**79**	71	64
	558	515	492

6 Fee and commission expense

	2013	2012	2011
	£m	*£m*	*£m*
Banking and savings fees	**95**	88	86
Other fees and commissions	**18**	8	6
	113	96	92

7 Other operating income

	2013	2012	2011
	£m	*£m*	*£m*
Gain on portfolio acquisition	**-**	96	-
Gain on redemption of subscribed capital	**43**	-	-
Loss on revaluation of property, plant and equipment	**-**	(6)	-
Rental income	**5**	5	6
Loss from sale of property, plant and equipment	**-**	(3)	-
Other	**(2)**	(1)	1
	46	91	7

Other operating income for the year ended 4 April 2013 includes a £43 million gain on redemption of subscribed capital, redemption related fees and associated swap breakage income. Further details are included in note 30.

The gain on portfolio acquisition in the year ended 4 April 2012 relates to the acquisition of a portfolio of UK based prime residential mortgages from the Bank of Ireland in December 2011 for consideration of £1,104 million. The gain on acquisition reflects the extent to which the price paid for the portfolio was lower than a comparative market valuation, derived from interest rates prevailing for similar quality mortgages at the transaction date.

8 (Losses)/gains from derivatives and hedge accounting

	2013	2012	2011
	£m	*£m*	*£m*
Derivatives designated as fair value hedges	**503**	(108)	1,141
Fair value movement attributable to hedged risk	**(616)**	47	(1,028)
(Losses)/gains from fair value hedges (note i)	**(113)**	(61)	113
Derivatives hedging mortgage commitments	**(64)**	-	-
Fair value movement attributable to mortgage commitments (note ii)	**78**	-	10
Net gain/(loss) from mortgage pipeline (note ii)	**14**	-	10
Fair value (losses)/gains from other derivatives (note iii)	**(66)**	96	(3)
	(165)	35	120

Notes

(i) Gains or losses from fair value hedges can arise where there is an IFRS hedge accounting relationship in place and either:
- the relationship passed all the monthly effectiveness tests but the fair value of the derivative was not exactly offset by the change in fair value of the asset or liability being hedged; or
- the relationship failed a monthly effectiveness test which, for that month, disallows recognition of the change in fair value of the underlying asset or liability being hedged and in following months leads to the amortisation of existing balance sheet positions.

(ii) As a result of increased mortgage lending, the Group recommenced electing to fair value a portion of its mortgage commitments during the year ended 4 April 2013 and doing so has reduced the accounting mismatch with derivatives hedging mortgage commitments.

(iii) Other derivatives are those used for economic hedging but which are not in an IAS 39 hedge accounting relationship because hedge accounting has not been adopted or is not achievable.

Although the Group uses derivatives exclusively to hedge risk exposures in interest rates, exchange rates or market indices, income statement volatility can still arise due to hedge accounting ineffectiveness or because hedge accounting is not achievable. Management recognise that this arises from the application of accounting rules which do not reflect the economic reality of the business and as such this volatility will continue period on period but will always trend back to zero over time.

A loss of £165 million (2012: gain of £35 million, 2011: gain of £120 million) has been recognised in the year ended 4 April 2013 for derivatives and hedge accounting. Included within this result was the impact of the following:

Year ended 4 April 2013

- Losses of £203 million, principally arising from the amortisation of balances related to past ineffectiveness on fixed rate mortgages held in a macro hedge relationship, offset by gains of £84 million on micro hedge relationships primarily comprising the reversal of past ineffectiveness on a gilt asset and covered bond liability that were sold/matured in the year.

- Accounting losses of £74 million arising as a result of volatility in sterling:euro interest rates on cross currency interest rate swaps which economically hedge non-sterling wholesale funding. This is the main component within the fair value losses and gains from other derivatives in the respective years.

Year ended 4 April 2012

- A loss of £61 million was recognised on assets and liabilities held in hedge accounting relationships. Included within this result was a decrease of £11 million in the fair value of derivative assets a result of the use of the overnight swap index (OIS) rates for the discounting of collateralised derivatives, in line with market convention, and a net gain of £25 million as a result of a refinement to the Group's estimation technique for fair valuing derivatives and associated assets and liabilities being hedged, so as to reflect the increasing basis spreads between interest rate curves.

- A gain of £96 million was recognised in respect of derivatives entered into by the Group for hedging purposes where hedge accounting had not been adopted or was not achievable. Included within this result was a £63 million gain arising from increasing volatility in currency markets, which led to a change in the estimation technique used to value cross-currency interest rate swaps hedging non-sterling wholesale funding. This gain incorporates the impact of implementing OIS rates for the discounting of these swaps which resulted in a £16 million decrease in fair value at 4 April 2012.

Year ended 4 April 2011

- In the year ended 4 April 2011 the net gain from derivatives and hedge accounting was primarily driven by £86 million of hedge ineffectiveness on large gilt asset and covered bond liability positions and £28 million on derivatives hedging savings before these savings were brought into a hedge accounting relationship.

9 Administrative expenses

	2013	**2012**	**2011**
	£m	*£m*	*£m*
Employee costs:			
• Wages and salaries	**413**	415	398
• Bonuses	**67**	62	63
• Social security costs	**47**	45	40
• Pension costs (note 31)	**77**	66	87
	604	588	588
Other administrative expenses	**584**	605	540
Bank levy (note 27)	**16**	16	-
	1,204	1,209	1,128
Other administrative expenses include:			
• Property operating lease rental	**31**	43	38
• Other property costs	**77**	76	81
• Postage and communications	**66**	68	66
• Computer costs	**104**	99	81
• Marketing and advertising	**28**	32	23
• Money transmission and other bank costs	**42**	47	45
• Legal, professional and consultancy	**52**	48	39
• Training, education and other staff related costs	**76**	106	81
• Other	**108**	86	86
	584	605	540

Administrative expenses include £16 million (2012: £61 million, 2011: £29 million) of restructuring costs, including £7 million relating to severance provisions (2012: £20 million, 2011: £1 million) and £1 million (2012: £8 million, 2011: £3 million) relating to onerous lease and other property related provisions. The remaining restructuring costs relate primarily to changes to parts of the business as part of the Group's cost optimisation programme and other initiatives.

The bonus charges within the employee costs in the above table include deferred bonuses for the Group of £1 million (2012: £1 million, 2011: £nil). Deferred bonuses remain subject to a further assessment of performance up until the point of payment.

Deferred bonuses are paid to Directors and senior executives as part of the Medium Term Bonus Scheme based upon a three year performance period. In accordance with PRA requirements, one third of the medium term bonus award is subject to a deferral for a period of one year. This deferred element may be reduced at the Remuneration Committee's discretion if it emerges that the original assessment of performance was misleading or if performance against the scheme measures declines substantially over the one year deferral period. Deferred bonuses are awarded in cash.

The deferred bonuses charged to the income statement in previous periods and expected to be charged to the income statement in future years were:

	Actual 2011/12	**Actual 2012/13**	**Expected 2013/14**	**Expected 2014/15**
	£m	*£m*	*£m*	*£m*
Bonus plan cycle:				
• 2009-2012	1	-	-	-
• 2010-2013	-	1	-	-
• 2011-2014	-	-	2	-
• 2012-2015	-	-	-	2
Income statement charge for deferred bonuses	1	1	2	2

The deferred element of the Medium Term Bonus Scheme was introduced for the first time in 2011/12 in relation to the 2009-2012 plan cycle in accordance with the Regulator's requirements.

Directors' emoluments are shown as part of the Report of the Directors on Remuneration in accordance with Schedule 10A, paragraphs 1 to 9 of the Building Societies Act 1986.

The remuneration of the external auditors, PricewaterhouseCoopers LLP, is set out below:

	2013	**2012**	**2011**
	£m	*£m*	*£m*
Audit fees for the Group and Society statutory audit	**1.8**	1.6	1.7
Fees payable for other services:			
• Audit of subsidiaries pursuant to legislation	**0.3**	0.5	0.6
• Audit-related assurance services	**0.5**	0.5	0.6
• Other assurance services	**0.8**	-	-
• All other services	**1.7**	1.0	0.5
	5.1	3.6	3.4

The Group's policy in relation to the use of its auditors on non-audit engagements sets out the types of services they are generally precluded from performing. All non-audit services, where the fee is expected to exceed a de minimis limit, are subject to pre-approval by the Audit Committee.

10 Employees

	2013	2012	2011
The average number of persons employed during the year was:			
• Full time	**12,720**	13,156	12,879
• Part time	**4,299**	4,550	4,813
`	**17,019**	17,706	17,692
Society			
• Central administration	**8,676**	9,019	8,780
• Branches	**8,297**	8,639	8,808
Subsidiaries	**46**	48	104
	17,019	17,706	17,692

The prior years' analyses of employee numbers have been revised to reflect the legal employment position of staff supporting subsidiaries, but employed by the Society's central administration function.

Central administration employee numbers include employees engaged in direct customer facing operations in administrative centres.

11 Impairment provisions on loans and advances to customers

The following provisions have been deducted from the appropriate asset values in the balance sheet:

2013	Prime residential	Specialist residential	Consumer banking	Commercial lending	Other lending	Total
	£m	*£m*	*£m*	*£m*	*£m*	*£m*
At 5 April 2012	40	162	80	547	14	843
(Credit)/charge for the year	**(6)**	**22**	**79**	**493**	**1**	**589**
Amounts written off during the year	**(9)**	**(87)**	**(100)**	**(130)**	**(3)**	**(329)**
Amounts recovered during the year	**1**	**4**	**30**	**2**	**2**	**39**
Transfer from credit loss fair value adjustment	**7**	**35**	**-**	**86**	**-**	**128**
Unwind of discount	**(1)**	**(3)**	**(2)**	**(40)**	**-**	**(46)**
At 4 April 2013	**32**	**133**	**87**	**958**	**14**	**1,224**

2012	Prime residential	Specialist residential	Consumer banking	Commercial lending	Other lending	Total
	£m	*£m*	*£m*	*£m*	*£m*	*£m*
At 5 April 2011	40	161	90	463	11	765
Charge for the year	13	57	69	247	4	390
Amounts written off during the year	(13)	(55)	(104)	(135)	(3)	(310)
Amounts recovered during the year	1	2	27	1	2	33
Unwind of discount	(1)	(3)	(2)	(29)	-	(35)
At 4 April 2012	40	162	80	547	14	843

2011	Prime residential	Specialist residential	Consumer banking	Commercial lending	Other lending	Total
	£m	£m	£m	£m	£m	£m
At 5 April 2010	17	143	148	422	20	750
Charge for the year	32	69	83	175	-	359
Amounts written off during the year	(9)	(51)	(156)	(105)	(13)	(334)
Amounts recovered during the year	1	3	20	-	4	28
Unwind of discount	(1)	(3)	(5)	(29)	-	(38)
At 4 April 2011	40	161	90	463	11	765

The impairment provision of £1,224 million at 4 April 2013 (2012: £843 million, 2011: £765 million) comprises individual provisions of £871 million (2012: £574 million, 2011: £478 million) and collective provisions of £353 million (2012: £269 million, 2011: £287 million).

Credit loss fair value adjustments relating to loans acquired from the Derbyshire, Cheshire and Dunfermline building societies have been released and recognised as provisions for incurred losses during the year ended 4 April 2013. The remaining excess amounts of residential credit fair value adjustments have been released to interest receivable as disclosed in note 3.

Critical accounting estimates and judgements

In accordance with the accounting policy described in note 1, impairment is measured as the difference between an asset's carrying amount and the present value of management's estimate of discounted future cash flows.

Key assumptions included in the measurement of impairment include the probability of any account going into default, the probability of defaulted accounts progressing to possession and the eventual loss incurred in the event of forced sale or write off. These assumptions are based on observed historical data and updated as management considers appropriate to reflect current conditions and the Group's strategy for the book. The accuracy of the impairment provision would therefore be affected by unexpected changes in these assumptions.

To the extent that actual cash flows in relation to retail loans and advances differ from those estimated by 10%, the impairment provision would change by an estimated £46 million at 4 April 2013 (2012: £36 million, 2011: £46 million). For residential mortgages the estimate of future house price index (HPI) movements is also a key assumption in estimating the eventual loss. To the extent that future HPI movements were to differ from expectations by 5%, the impact on the impairment provision would be £15 million at 4 April 2013 (2012: £16 million, 2011: £20 million).

In calculating the provisions for commercial loans, estimates of discounted cash flows are made on the basis of the planned strategy for each loan. These estimates include assumptions for underlying property values and future expected cash flows for rental income and any maintenance, redevelopment or refurbishment expenditure on the properties. Commercial property values are driven by estimates of current and expected future rental incomes and by property yields, which are updated based upon industry wide data available for different property sectors. To the extent that actual cash flows differ from those estimated by 10%, the impairment provision on commercial loans would change by an estimated £216 million at 4 April 2013 (2012: £118 million, 2011: £81 million).

12 Taxation

The current year tax charge of £41 million (2012: £53 million, 2011: £73 million) has been offset by prior year adjustments of £44 million (2012: £27 million, 2011: £3 million) and the impact of the change in corporation tax rate on deferred tax of £7 million (2012: £12 million, 2011: £9 million) to result in a tax credit of £10 million (2012: charge of £14 million, 2011: charge of £61 million).

During the year ended 4 April 2013 the Group settled two outstanding tax matters relating to prior years. Consequently excess tax provisions of £43 million have been released. During the year ended 4 April 2012 the Group released £21 million of provisions held in respect of previously uncertain liabilities on historic transactions which were no longer required. These account for the main items of the total prior year credit of £44 million (2012: £27 million, 2011: £3 million).

	2013	**2012**	**2011**
	£m	*£m*	*£m*
Current Tax:			
UK corporation tax	**33**	25	65
Corporation tax – adjustment in respect of prior years	**(29)**	(25)	1
	4	-	66
Overseas income tax	**-**	-	2
Total current tax	**4**	-	68
Deferred tax (note 22):			
Current year	**8**	28	6
Adjustment in respect of prior years	**(15)**	(2)	(4)
Effect of corporation tax rate change	**(7)**	(12)	(9)
Total deferred taxation	**(14)**	14	(7)
Tax (credit)/charge	**(10)**	14	61

The actual tax (credit)/charge differs from the theoretical amount that would arise using the standard rate of corporation tax in the UK as follows:

	2013	**2012**	**2011**
	£m	*£m*	*£m*
Profit before tax	**168**	166	285
Tax calculated at a tax rate of 24% (2012: 26%, 2011: 28%)	**40**	43	81
Adjustments in respect of prior years	**(44)**	(27)	(3)
Effect of different tax rates in other countries	**(4)**	(5)	(6)
Expenses not taxable/deductible for tax purposes:			
Building depreciation	**2**	1	1
Bank levy	**4**	4	-
Other	**-**	10	7
Previously unrecognised losses	**(1)**	-	(10)
Effect of corporation tax rate change	**(7)**	(12)	(9)
	(10)	14	61

The tax on items through other comprehensive income is as follows:

	2013	**2012**	**2011**
	£m	*£m*	*£m*
Available for sale investments	**40**	63	100
Revaluation of property	**-**	(4)	(1)
Actuarial remeasurement of retirement benefit obligations	**53**	(99)	55
Effect of corporation tax rate change on other items through the general reserve	**2**	4	6
Adjustment to deferred tax transferred from acquisitions	**-**	-	(5)
	95	(36)	155

The Group tax charge through the available for sale reserve of £40 million (2012: £63 million, 2011: £100 million) is made up of a charge of £36 million (2012: £67 million, 2011: £96 million) through deferred tax and a charge of £4 million (2012: £4 million credit, 2011: £4 million charge) through current tax.

At 4 April 2013, other liabilities on the Group balance sheet of £251 million (2012: £349 million, 2011: £376 million) included third party income tax withheld on interest paid to customers and payable to the tax authorities of £90 million (2012: £110 million, 2011: £117 million).

13 Operating segments

For management reporting purposes, the Group is organised into the following business groupings:

- Retail
- Commercial
- Head office functions.

These business groupings reflect how management assesses performance and makes decisions on allocating resources to the business on the basis of product and customers. Revenues from external and internal customers are allocated to the appropriate business segment.

Retail

Retail functions include prime residential lending, specialist residential lending, consumer banking, retail funding (savings products), commercial deposits which are managed by the retail business, insurance and investments. The distribution channels supporting these products are also included in this segment.

Commercial

This segment comprises the commercial lending business.

Head office functions

Head office functions include treasury operational and income generation activities, head office and central support functions, commercial deposits received and managed by the Treasury Division and the result arising from the funds transfer pricing methodology relating to the funding of other segments.

Head office and central support functions includes executive management, corporate secretariat, legal services, human resources, strategy and planning, finance, risk management, capital management, corporate affairs, property services and internal audit.

Funds transfer pricing methodology

Funds transfer pricing is the mechanism by which the Group recognises the internal cost of funds and allocates this cost between different product groups and business segments to derive individual product margin and net interest receivable. Under the Group's methodology, a single cost of funds representing the weighted average cost of retail and wholesale funding is allocated across the Group and is updated on a quarterly basis, to reflect the opportunity cost of funding and the relative performance of the different business segments, based on current market cost of funds.

However, within the Commercial Division, the transfer price charged to long term social housing and PFI lending is set to reflect the lower average historic cost of wholesale funding which was available when this book was originated. This reflects the nature of this lending which did not envisage the current marginal cost of borrowing and is assessed based on of the movements in the Group's cost of wholesale funding. All other assets in the Commercial Division will continue to be charged the weighted average current cost of retail and wholesale funds, in line with other assets.

The retail and commercial business segments are charged for the benefit of free capital as part of the funds transfer pricing mechanism, based upon regulatory capital metrics.

The segmental results presented below have been restated from those previously published, following an update in funding costs due to a change in capital allocation methodology.

2013		**Retail**	**Commercial**	**Head office functions**	**Total**
	Notes	*£m*	*£m*	*£m*	*£m*
Net income/(expense) from external customers		**2,284**	**794**	**(1,097)**	**1,981**
(Charge)/revenue from other segments		**(343)**	**(720)**	**1,063**	**-**
Net interest income		**1,941**	**74**	**(34)**	**1,981**
Other income	i	**433**	**18**	**53**	**504**
Total revenue		**2,374**	**92**	**19**	**2,485**
Expenses	ii	**(1,309)**	**(46)**	**(33)**	**(1,388)**
Impairment and other provisions	iii	**(166)**	**(493)**	**(5)**	**(664)**
Underlying profit/(loss) before tax		**899**	**(447)**	**(19)**	**433**
FSCS levies		**(68)**	**-**	**-**	**(68)**
Restructuring costs		**(3)**	**-**	**(13)**	**(16)**
Bank levy		**-**	**-**	**(16)**	**(16)**
Losses from derivatives and hedge accounting		**-**	**-**	**(165)**	**(165)**
Profit/(loss) before tax		**828**	**(447)**	**(213)**	**168**
Taxation					**10**
Profit after tax					**178**
Total assets	iv	**138,810**	**20,371**	**31,537**	**190,718**
Total liabilities		**131,184**	**526**	**52,428**	**184,138**

2012	Notes	**Retail** £m	**Commercial** £m	**Head office functions** £m	**Total** £m
Net income/(expense) from external customers		2,198	866	(1,474)	1,590
(Charge)/revenue from other segments		(769)	(813)	1,582	-
Net interest income		1,429	53	108	1,590
Gain on acquisition of mortgage portfolio		96	-	-	96
Other income	i	406	18	-	424
Total revenue		1,931	71	108	2,110
Expenses	ii	(1,201)	(38)	(73)	(1,312)
Impairment and other provisions	iii	(242)	(247)	(42)	(531)
Underlying profit/(loss) before tax		488	(214)	(7)	267
FSCS levies		(59)	-	-	(59)
Restructuring costs		(1)	-	(60)	(61)
Bank levy		-	-	(16)	(16)
Gains from derivatives and hedge accounting		-	-	35	35
Profit/(loss) before tax		428	(214)	(48)	166
Taxation					(14)
Profit after tax					152
Total assets	iv	131,549	22,157	42,423	196,129
Total liabilities		131,344	92	58,534	189,970

2011	Notes	**Retail** £m	**Commercial** £m	**Head office functions** £m	**Total** £m
Net income/(expense) from external customers		2,649	995	(2,135)	1,509
(Charge)/revenue from other segments		(1,310)	(954)	2,264	-
Net interest income		1,339	41	129	1,509
Other income	i	381	20	10	411
Total revenue		1,720	61	139	1,920
Expenses	ii	(1,109)	(32)	(108)	(1,249)
Impairment and other provisions	iii	(186)	(175)	(66)	(427)
Underlying profit/(loss) before tax		425	(146)	(35)	244
FSCS levies		(50)	-	-	(50)
Restructuring costs		(4)	-	(25)	(29)
Gains from derivatives and hedge accounting		-	-	120	120
Profit/(loss) before tax		371	(146)	60	285
Taxation					(61)
Profit after tax					224
Total assets	iv	126,829	22,107	40,017	188,953
Total liabilities		128,647	-	54,064	182,711

Notes

(i) Other income excludes losses and gains from derivatives and hedge accounting which are shown separately.
(ii) Expenses exclude restructuring costs and bank levy which are shown separately.
(iii) Impairment and other provisions includes impairment losses on loans and advances to customers, provisions for liabilities and charges (excluding FSCS) and impairment losses on investment securities.
(iv) Retail assets include goodwill arising on the acquisitions of The Mortgage Works (UK) plc and the Derbyshire Building Society.

14 Loans and advances to banks

Loans and advances to banks at 4 April 2013 include £185 million (2012: £192 million, 2011: £187 million) of mandatory reserve deposits with the Bank of England.

15 Investment securities – available for sale

	2013	2012	2011
	£m	*£m*	*£m*
Government and supranational investment securities	**8,984**	16,546	12,563
Listed private sector investment securities	**4,437**	6,779	8,977
	13,421	23,325	21,540

Investment securities include items with a carrying value of £231 million (2012: £1,325 million, 2011: £227 million) which have been sold under sale and repurchase agreements (see note 23 for details of the associated liabilities). These assets have not been derecognised as the Group has retained substantially all the risks and rewards of ownership. The Group is unable to use, sell or pledge the transferred assets for the duration of the transaction and remains exposed to any associated interest rate risk or credit risk of the assets. The decrease of the value of investment securities during the year ended 4 April 2013 was due primarily to the sale of UK gilts and asset backed securities.

Certain notes with a carrying value of £1,250 million (2012: £1,250 million, 2011: £1,250 million) issued by Silverstone Master Issuer plc to the Society under the asset backed funding programmes (note 17) have also been sold under sale and repurchase agreements. In accordance with accounting standards these notes are not recognised by the Group.

The proceeds and accrued interest of the sale and repurchase agreements of £1,207 million (2012: £2,145 million, 2011: £1,249 million) are included within deposits from banks (note 23).

The Group holds no collateral under reverse sale and repurchase agreements at 4 April 2013 and 4 April 2012 (2011: £1,500 million).

At 4 April 2013 the Group holds collateral under total return swaps of £188 million (2012: £188 million, 2011: £nil). In line with accounting standards, the collateral is not recognised in the accounts and therefore is not reflected in the table above. The related proceeds of £149 million (2012: £149 million, 2011: £nil) are included in loans and advances to banks.

The impairment loss on investment securities of £2 million in the year ended 4 April 2013 comprises an impairment loss amounting to £23 million on UK commercial mortgage backed securities (CMBS), offset by a write back on sale of US asset backed investments of £19 million and a write back of a previously impaired position of £2 million. Further information on treasury financial instruments credit risk is included in note 34.

The impairment loss on investment securities of £38 million in the year ended 4 April 2012 comprises £17 million for a collateralised debt obligation (CDO) of US residential mortgage backed securities (RMBS) exposures, £9 million on a UK CMBS, £5 million on Portuguese bank subordinated debt which has subsequently been sold and £7 million in respect of investments in a private equity portfolio managed by the Treasury Division.

The 2011 charge of £66 million was driven by a £22 million impairment of a number of US RMBS exposures, £15 million on a CMBS, £18 million from restructuring of subordinated debt from Irish banks and £11 million on notes of a restructured Structured Investment Vehicle (SIV).

Critical accounting estimates and judgements

The Group determines that available for sale assets are impaired when it is considered that there is objective evidence of impairment. In determining whether this evidence exists, the Group evaluates, among other factors, the normal volatility in valuation together with consideration of the appropriateness of valuations under the current market conditions, evidence of deterioration in the financial health of the investee, industry and sector performance and operational and financing cash flows. This determination is supported by rigorous credit assessment overseen by the Risk Management Division.

16 Derivative financial instruments

All derivative financial instruments are held for risk mitigation purposes, although not all derivatives are designated as hedging under the terms of IAS 39. The table below analyses derivatives between those designated as hedging instruments and those which, whilst in economic hedging relationships, are not designated as hedging instruments:

	Contract/ notional amount	Fair value	
2013		**Assets**	**Liabilities**
	£m	*£m*	*£m*
Derivatives designated as fair value hedges:			
Interest rate swaps	**75,330**	**1,793**	**3,674**
Other derivatives not designated in hedge accounting relationships:			
Cross currency interest rate swaps	**10,808**	**1,150**	**97**
Caps, collars and floors	**469**	**-**	**1**
Forward foreign exchange	**7,016**	**152**	**22**
Forward rate agreements	**5,490**	**-**	**-**
Swaptions	**344**	**2**	**27**
Interest rate futures	**1,304**	**-**	**-**
Interest rate and equity index swaps	**35,021**	**1,115**	**64**
	135,782	**4,212**	**3,885**
Derivatives having remaining maturities as follows:			
In not more than one year	**62,626**	**660**	**201**
In more than one year	**73,156**	**3,552**	**3,684**
	135,782	**4,212**	**3,885**

2012	**Contract/ notional amount**	**Fair value**	
		Assets	**Liabilities**
	£m	*£m*	*£m*
Derivatives designated as fair value hedges:			
Interest rate swaps	93,586	1,846	3,996
Other derivatives not designated in hedge accounting relationships:			
Cross currency interest rate swaps	13,824	1,622	139
Caps, collars and floors	666	2	3
Forward foreign exchange	6,443	-	60
Forward rate agreements	5,190	1	-
Swaptions	349	3	28
Interest rate futures	4,424	-	-
Interest rate and equity index swaps	67,383	702	61
	191,865	4,176	4,287
Derivatives have remaining maturities as follows:			
In not more than one year	105,073	814	404
In more than one year	86,792	3,362	3,883
	191,865	4,176	4,287

2011	**Contract/ notional amount**	**Fair value**	
		Assets	**Liabilities**
	£m	*£m*	*£m*
Derivatives designated as fair value hedges			
Interest rate swaps	107,761	1,391	2,938
Other derivatives not designated in hedge accounting relationships:			
Cross currency interest rate swaps	15,205	2,432	41
Caps, collars and floors	732	2	3
Forward foreign exchange	3,692	53	19
Forward rate agreements	150	-	-
Swaptions	449	2	41
Interest rate futures	2,299	-	-
Interest rate and equity index swaps	46,041	81	192
	176,329	3,961	3,234
Derivatives have remaining maturities as follows:			
In not more than one year	79,719	813	349
In more than one year	96,610	3,148	2,885
	176,329	3,961	3,234

Contract/notional amount indicates the amount on which payment flows are derived at the balance sheet date and does not represent amounts at risk.

For valuing collateralised derivatives the Group uses discount curves based on overnight indexed swap (OIS) rates, whilst for non-collateralised derivatives the Group uses discount curves based on term Libor rates.

17 Loans and advances to customers

	2013	**2012**	**2011**
	£m	*£m*	*£m*
Prime residential mortgages	**110,587**	105,549	104,229
Specialist residential mortgages	**24,806**	23,096	20,224
Consumer banking	**3,401**	2,888	2,376
Commercial lending	**18,958**	20,961	21,560
Other lending	**422**	479	481
	158,174	152,973	148,870
Fair value adjustment for micro hedged risk	**1,413**	1,196	547
	159,587	154,169	149,417

Maturity analysis

Loans and advances to customers have remaining contractual maturities as follows:

	2013	**2012**	**2011**
	£m	*£m*	*£m*
Repayable on demand	**1,921**	1,630	1,460
Other loans and advances by residual maturity repayable:			
In not more than three months	**3,334**	2,881	2,104
In more than three months but not more than one year	**5,712**	5,452	5,070
In more than one year but not more than five years	**26,502**	26,113	25,295
In more than five years	**121,929**	117,740	115,706
	159,398	153,816	149,635
Impairment provision on loans and advances (note 11)	**(1,224)**	(843)	(765)
Fair value adjustment for micro hedged risk	**1,413**	1,196	547
	159,587	154,169	149,417

The maturity analysis is produced on the basis that where a loan is repayable by instalments, each such instalment is treated as a separate repayment. The analysis is based on contractual maturity rather than actual redemption levels experienced by the Group, which are likely to be materially different. Arrears are spread across the remaining term of the loan.

The maturity analysis for the year ended 4 April 2012 has been revised to reflect more appropriately the maturity of certain commercial loans.

Asset backed funding

Certain prime residential mortgages have been pledged to the Group's asset backed funding programmes or utilised as whole mortgage loan pools for the Bank of England's (BoE) Funding for Lending Scheme (FLS). The programmes have enabled the Group to obtain secured funding or to create additional collateral which could be used to source additional funding. Mortgages pledged and the values of the notes in issue are as follows:

2013		**Notes in issue**			
	Mortgages pledged	**Held by third parties**	**Held by the Group**		**Total**
			Drawn	**Undrawn**	
	£m	*£m*	*£m*	*£m*	*£m*
Covered bond programme..........................	**21,856**	**11,376**	**-**	**4,500**	**15,876**
Securitisation programme..........................	**24,994**	**7,606**	**1,250**	**12,291**	**21,147**
Whole mortgage loan pools	**4,891**	**-**	**3,490**	**1,401**	**4,891**
	51,741	**18,982**	**4,740**	**18,192**	**41,914**

2012		**Notes in issue**			
	Mortgages pledged	**Held by third parties**	**Held by the Group**		**Total**
			Drawn	**Undrawn**	
	£m	*£m*	*£m*	*£m*	*£m*
Covered bond programme..........................	32,109	13,024	-	6,764	19,788
Securitisation programme..........................	26,172	7,404	1,250	12,291	20,945
Other secured lending programmes	2,225	1,500	-	-	1,500
	60,506	21,928	1,250	19,055	42,233

2011		**Notes in issue**			
	Mortgages pledged	**Held by third parties**	**Held by the Group**		**Total**
			Drawn	**Undrawn**	
	£m	*£m*	*£m*	*£m*	*£m*
Covered bond programme..........................	33,051	12,264	4,611	5,602	22,477
Securitisation programme..........................	32,679	3,746	2,500	14,686	20,932
Other secured lending programmes	2,212	1,500	-	-	1,500
	67,942	17,510	7,111	20,288	44,909

The whole mortgage loan pools are pre-positioned at the BoE under the FLS. No loans are issued when pre-positioning the mortgage loan pools at the BoE. Instead, the whole pool is pledged to the BoE and drawings are made directly against the eligible collateral, subject to a haircut. Therefore, values shown under notes in issue are the whole mortgage loan pool notional balances.

Mortgages pledged include £3.6 billion (2012: £4.5 billion, 2011: £6.8 billion) in the covered bond and securitisation programmes that are in excess of the amount contractually required to support notes in issue.

Mortgages pledged are not derecognised from the Group balance sheet as the Group has retained substantially all the risks and rewards of ownership. The Group continues to be exposed to the liquidity risk, interest rate risk and credit risk of the mortgages. No gain or loss has been recognised on pledging the mortgages to the programmes.

Notes in issue and held by third parties are included within debt securities in issue (note 26).

Notes in issue, held by the Group and drawn are:

- Debt securities issued by the programmes to the Group which have been used as collateral in sale and repurchase agreements with third parties, and
- Whole mortgage loans securing amounts drawn under the FLS at 4 April 2013 of £2.5 billion.

Notes in issue, held by the Group and undrawn are debt securities issued by the programmes to the Group and mortgage loan pools that have pledged to the BoE FLS but not utilised. The majority of these are held to provide collateral for potential future use in repurchase agreements or central bank operations.

In accordance with accounting standards, notes in issue and held by the Group are not recognised by the Group in its balance sheet.

The Group established the Nationwide Covered Bond programme in November 2005. Mortgages pledged provide security for issues of covered bonds made by the Group. During the year ended 4 April 2013 $2.0 billion and €3.5 billion (£4.3 billion sterling equivalent) of notes matured. There were no new issuances in the year.

The Group established the Silverstone Master Trust securitisation programme in July 2008. Mortgages pledged are held by Silverstone Finance Trustee Limited. The proceeds of notes issued by this programme of £21.1 billion (2012: £20.9 billion, 2011: £20.9 billion) have been used to purchase a share of the beneficial interest in the mortgages pledged for the beneficial interest of the note holders. The remaining beneficial interest in the pledged mortgages of £4.0 billion (2012: £5.2 billion, 2011: £11.7 billion) stays with the Group and incorporates its required minimum seller share in accordance with the rule of the programme. The Group is under no obligation to support losses incurred by the programme or holders of the notes and does not intend to provide such further support. The entitlement of note holders is restricted to payment of principal and interest to the extent that the resources of the programme are sufficient to support such payment and the holders of the notes have agreed not to seek recourse in any other form. There was no further securitisation activity during the year ended 4 April 2013.

The following table sets out the carrying value of the transferred assets and liabilities for the Silverstone Master Trust.

	2013					
	Carrying Value			**Fair Value**		
	Transferred Assets	**Associated Liabilities**	**Total**	**Transferred Assets**	**Associated Liabilities**	**Total**
	£m	*£m*	*£m*	*£m*	*£m*	*£m*
Securitisation programme	**24,994**	**(21,147)**	**3,847**	**23,875**	**(21,750)**	**2,125**

	2012					
	Carrying Value			**Fair Value**		
	Transferred Assets	**Associated Liabilities**	**Total**	**Transferred Assets**	**Associated Liabilities**	**Total**
	£m	*£m*	*£m*	*£m*	*£m*	*£m*
Securitisation programme	26,172	(20,945)	5,227	25,157	(21,933)	3,224

	2011					
	Carrying Value			Fair Value		
	Transferred Assets	Associated Liabilities	Total	Transferred Assets	Associated Liabilities	Total
	£m	*£m*	*£m*	*£m*	*£m*	*£m*
Securitisation programme................	32,679	(20,932)	11,747	31,371	(21,682)	9,689

The Group holds cash deposited by the covered bond programme of £2.0 billion (2012: £1.4 billion, 2011: £2.2 billion) and by the Silverstone programme of £1.8 billion (2012: £1.2 billion, 2011: £2.1 billion).

Critical accounting estimates and judgements

Fair value adjustments held to reflect the credit risk associated with acquired loan assets were considered an area of judgement and estimate in 2011 and 2012. The adjustments were released to the income statement to the extent they were no longer required to cover future expected losses. The amount of any release of fair value adjustment was based on management's estimate of future expected losses. In estimating expected losses, management considered the probability of any account going into default, the probability of defaulted accounts progressing to possession and the eventual loss incurred in the event of forced sale or write off. A key assumption in estimating the eventual loss was the estimate of future HPI movements. To the extent that future HPI movements were to differ from expectations by 5%, the impact on the expected loss on residual assets was 2012: £14 million, 2011: £15 million. These assumptions were based on observed historical data and updated as management considered appropriate to reflect current conditions. The calculation of any surplus fair value adjustment to release would therefore be affected by unexpected changes in these assumptions.

At 4 April 2012, the Group's balance sheet included a £95 million (2011: £132 million) credit risk fair value adjustment in relation to the Group's residential assets acquired through acquisitions of the Derbyshire, Cheshire and core parts of the Dunfermline building societies. During the year ended 4 April 2012 the Group had made no release of surplus credit fair value adjustment (2011: £33 million release). During the year ended 4 April 2013, the Group fully released the remaining excess credit risk fair value adjustments totalling £48 million in relation to these acquisitions.

For the Group's acquired commercial loans, a £108 million (2011: £147 million) credit risk fair value adjustment was included in the balance sheet at 4 April 2012. A number of these loans are reviewed on an individual basis. On these loans, during the year ended 4 April 2012 the Group had released £5 million (2011: £3 million) surplus fair value where actual write offs were lower than the fair value adjustments relating to the individual loans. The remainder of the acquired commercial portfolio is assessed on a collective basis. On these loans, during the year ended 4 April 2012 the Group had made no release of surplus credit fair value adjustment (2011: nil). During the year ended 4 April 2013, the remaining excess adjustments in relation to these acquisitions were fully amortised.

18 Investments in equity shares

	2013	2012	2011
	£m	*£m*	*£m*
At 5 April..	29	103	86
Additions	**-**	2	25
Disposals..	**(10)**	(67)	(11)
Increase/(decrease) in fair value..............................	**9**	(2)	3
Impairment..	**-**	(7)	-
At 4 April	**28**	29	103

Investments in equity shares include investments of £27 million (2012: £28 million, 2011: £102 million) carried at fair value. £7 million (2012: £16 million, 2011: £15 million) of the Group's investments in equity shares relate to participation in industry wide banking and credit card service operations.

During the year ended 4 April 2013 the Group sold £10 million of equity investments relating to participation in an industry wide credit card service operation. In the year ended 4 April 2012 investments in equity shares with a carrying value of £65 million were sold at a fair value of £68 million to the Nationwide Pension Fund. Further details are provided in note 38. During the year ended 4 April 2012 an impairment charge of £7 million was recognised in respect of an investment in a private equity portfolio.

19 Investments in Group undertakings

Audited accounts are prepared for all the Group's principal subsidiaries. The interests of the Society in its principal subsidiary undertakings, as at 4 April 2013 are set out below:

100% held subsidiary undertakings	Nature of business
Nationwide International Limited*	Offshore deposit taker
Nationwide Syndications Limited	Syndicated lending
The Mortgage Works (UK) plc*	Mortgage lender
UCB Home Loans Corporation Limited*	Mortgage lender
Derbyshire Home Loans Limited*	Mortgage lender
E-MEX Home Funding Limited*	Mortgage lender

* Regulated entities which are subject to regulations which require them to maintain capital at agreed levels and so govern the availability of funds for distribution as dividends.

All of the above subsidiary undertakings are limited liability companies, which are registered in England and Wales and operate in the UK, except for Nationwide International Limited which is registered and operates in the Isle of Man.

The Group has interests in a number of entities which give rise to the risks and rewards that are in substance no different than if they were owned by the Group. As a consequence, these entities are consolidated in the Group accounts.

The principal interests of the Society in these entities as at 4 April 2013 are set out below:

Other subsidiary undertakings	Nature of business	Country of registration	Country of operation
Nationwide Covered Bonds LLP	Mortgage acquisition and guarantor of covered bonds	England and Wales	UK
Silverstone Master Issuer plc	Funding vehicle	England and Wales	UK

For smaller subsidiaries the Group has adopted the audit exemptions under Section 479A of the Companies Act 2006 which became available in the Department for Business Innovation & Skills (BIS) regulations published in September 2012. In order to fulfil the requirements of these regulations the Society guarantees all outstanding liabilities of the exempted subsidiary undertakings in respect of the year ended 4 April 2013.

The Group has adopted the audit exemption for the following subsidiary undertakings for the year ended 4 April 2013:

Unaudited subsidiary undertakings

Confederation Mortgage Services Limited
Dunfermline BS Nominees Limited
Exeter Trust Limited
First Nationwide
Jubilee Mortgages Limited
LBS Mortgages Limited
Monument (Sutton) Limited
Nationwide Anglia Property Services Limited
Nationwide Investments (No 1) Limited
Nationwide Trust Limited
NBS Fleet Services Limited
Staffordshire Leasing Limited
The Derbyshire (Premises) Limited

All of the above unaudited subsidiary undertakings are limited liability companies, with exception of First Nationwide which is an unlimited company, and are registered in England and Wales and operate in the UK.

In addition, for the year ended 4 April 2013, the Group has adopted the exemptions under Section 394A of the Companies Act 2006 not to prepare accounts for the following dormant subsidiary undertakings:

Dormant subsidiary undertakings

at. home nationwide limited
Ethos Independent Financial Services Limited
Longwide Limited
Nationwide Financial Service Limited
Nationwide Healthcare Trustee Limited
Nationwide Home Loans Limited
Nationwide Housing Trust Limited
Nationwide Independent Financial Services Limited
Nationwide International Limited
Nationwide Lease Finance Limited
Nationwide Overseas (UK) Limited
Nationwide Mortgage Corporation Limited
Nationwide Pension Fund Trustee Limited
Nationwide Pension Fund Nominee Limited
Nationwide Property Services (NBS) Limited

All of the above dormant subsidiary undertakings are limited liability companies and are registered in England and Wales.

20 Intangible assets

2013	Computer software: Externally acquired	Computer software: Internally developed	Total computer software	Other intangible assets	Goodwill	Total
	£m	*£m*	*£m*	*£m*	*£m*	*£m*
Cost						
At 5 April 2012	387	448	835	42	16	893
Additions	**75**	**227**	**302**	**-**	**-**	**302**
Disposals	**(38)**	**(12)**	**(50)**	**-**	**-**	**(50)**
At 4 April 2013	**424**	**663**	**1,087**	**42**	**16**	**1,145**
Accumulated amortisation and impairment						
At 5 April 2012	136	52	188	24	-	212
Amortisation charge	**23**	**59**	**82**	**4**	**-**	**86**
Impairment in the year	**-**	**3**	**3**	**-**	**-**	**3**
Disposals	**(38)**	**(12)**	**(50)**	**-**	**-**	**(50)**
At 4 April 2013	**121**	**102**	**223**	**28**	**-**	**251**
Net book value						
At 4 April 2013	**303**	**561**	**864**	**14**	**16**	**894**

2012	Computer software: Externally acquired	Computer software: Internally developed	Total computer software	Other intangible assets	Goodwill	Total
	£m	*£m*	*£m*	*£m*	*£m*	*£m*
Cost						
At 5 April 2011	342	315	657	42	16	715
Additions	71	142	213	-	-	213
Disposals	(26)	(9)	(35)	-	-	(35)
At 4 April 2012	387	448	835	42	16	893
Accumulated amortisation and impairment						
At 5 April 2011	142	33	175	11	-	186
Amortisation charge	20	28	48	4	-	52
Impairment in the year	-	-	-	9	-	9
Disposals	(26)	(9)	(35)	-	-	(35)
At 4 April 2012	136	52	188	24	-	212
Net book value						
At 4 April 2012	251	396	647	18	16	681

2011	Computer software		Total computer software	Other intangible assets	Goodwill	Total
	Externally acquired	Internally developed				
	£m	£m	£m	£m	£m	£m
Cost						
At 5 April 2010	276	188	464	42	16	522
Additions	92	127	219	-	-	219
Disposals	(26)	-	(26)	-	-	(26)
At 4 April 2011	342	315	657	42	16	715
Accumulated amortisation and impairment						
At 5 April 2010	141	22	163	6	-	169
Amortisation charge	27	11	38	5	-	43
Disposals	(26)	-	(26)	-	-	(26)
At 4 April 2011	142	33	175	11	-	186
Net book value						
At 4 April 2011	200	282	482	31	16	529

Intangible assets at 4 April 2013 include £155 million (2012: £340 million, 2011: £307 million) of assets in the course of construction. These assets relate mainly to the Group's investment in new systems platforms to meet the future needs of the business. To the extent that these new systems platforms are not yet ready for use by the business, no amortisation has been charged against these assets.

Software costs capitalised during the year ended 4 April 2013 relate mainly to new systems platforms and are being amortised over estimated useful lives predominantly of either 5 years or, for some systems platforms, 10 years.

In the year ended 4 April 2013 £12 million (2012: £14 million, 2011: £11 million) of borrowing costs have been capitalised using a capitalisation rate of 2.39% (2012: 2.73%, 2011: 2.31%).

An impairment loss of £3 million has been recognised in the year to 4 April 2013 in respect of point of sale software relating to a product that was discontinued during the year.

An impairment loss of £9 million was recognised in the year to 4 April 2012 in respect of core deposit intangible assets which were recognised on the acquisition of the Derbyshire, Cheshire and Dunfermline building societies.

Computer software of £317 million at 4 April 2012 (2011: £241 million), predominantly in relation to new systems platforms, has been re-classified between the externally acquired and internally developed intangible assets categories to present more accurately the nature of these assets.

The Group's intangible assets include £12 million (2012 and 2011: £12 million) of goodwill relating to the acquisition of The Mortgage Works (UK) plc and £4 million (2012 and 2011: £4 million) of goodwill relating to the acquisition of the Derbyshire Building Society.

21 Property, plant and equipment

2013	**Branches and non-specialised buildings**	**Specialised administration buildings**	**Short leasehold buildings**	**Total land and buildings**	**Plant and machinery**	**Equipment, fixtures, fittings and vehicles**	**Total**
	£m	*£m*	*£m*	*£m*	*£m*	*£m*	*£m*
Cost or valuation							
At 5 April 2012	232	186	48	466	120	968	1,554
Additions	**1**	**-**	**-**	**1**	**26**	**48**	**75**
Revaluation	**3**	**-**	**-**	**3**	**-**	**-**	**3**
Disposals	**(5)**	**-**	**-**	**(5)**	**(15)**	**(138)**	**(158)**
At 4 April 2013	**231**	**186**	**48**	**465**	**131**	**878**	**1,474**
Accumulated depreciation and impairment							
At 5 April 2012	-	71	33	104	68	437	609
Depreciation charge	**-**	**2**	**1**	**3**	**17**	**103**	**123**
Impairment in the year	**-**	**3**	**-**	**3**	**1**	**-**	**4**
Disposals	**-**	**-**	**-**	**-**	**(14)**	**(134)**	**(148)**
At 4 April 2013	**-**	**76**	**34**	**110**	**72**	**406**	**588**
Net book value							
At 4 April 2013	**231**	**110**	**14**	**355**	**59**	**472**	**886**

2012	**Branches and non-specialised buildings**	**Specialised administration buildings**	**Short leasehold buildings**	**Total land and buildings**	**Plant and machinery**	**Equipment, fixtures, fittings and vehicles**	**Total**
	£m	*£m*	*£m*	*£m*	*£m*	*£m*	*£m*
Cost or valuation							
At 5 April 2011	248	185	47	480	104	936	1,520
Additions	2	1	1	4	22	115	141
Revaluation	(14)	-	-	(14)	-	-	(14)
Disposals	(4)	-	-	(4)	(6)	(83)	(93)
At 4 April 2012	232	186	48	466	120	968	1,554
Accumulated depreciation and impairment							
At 5 April 2011	-	67	32	99	59	414	572
Depreciation charge	-	4	1	5	15	99	119
Disposals	-	-	-	-	(6)	(76)	(82)
At 4 April 2012	-	71	33	104	68	437	609
Net book value							
At 4 April 2012	232	115	15	362	52	531	945

2011	Branches and non-specialised buildings	Specialised administration buildings	Short leasehold buildings	Total land and buildings	Plant and machinery	Equipment, fixtures, fittings and vehicles	Total
	£m	*£m*	*£m*	*£m*	*£m*	*£m*	*£m*
Cost or valuation							
At 5 April 2010	267	142	46	455	105	894	1,454
Additions	-	32	1	33	9	111	153
Transfers	(11)	11	-	-	-	-	-
Revaluation	3	-	-	3	-	-	3
Disposals	(11)	-	-	(11)	(10)	(69)	(90)
At 4 April 2011	248	185	47	480	104	936	1,520
Accumulated depreciation and impairment							
At 5 April 2010	-	60	30	90	57	391	538
Depreciation charge	-	3	2	5	12	90	107
Impairment in the year	-	4	-	4	-	-	4
Disposals	-	-	-	-	(10)	(67)	(77)
At 4 April 2011	-	67	32	99	59	414	572
Net book value							
At 4 April 2011	248	118	15	381	45	522	948

Property, plant and equipment at 4 April 2013 includes £81 million (2012: £184 million, 2011: £162 million) of assets in the course of construction.

In the year ended 4 April 2013 an impairment charge of £4 million was made which primarily related to a former technology centre.

In the year ended 4 April 2011 an impairment charge of £4 million was made in respect of the former head office buildings of the Derbyshire and Cheshire building societies.

22 Deferred tax

Deferred tax is provided in full on temporary differences under the liability method at the standard UK corporation tax rate.

In addition to the changes in rates of corporation tax disclosed below and within note 12, a number of further changes to the UK corporation tax system were announced in the March 2013 UK Budget Statement. Legislation to reduce the main rate of corporation tax from 23% to 21% from 1 April 2014 was included in the Finance Act 2013 which was substantively enacted on 2 July 2013. Further reductions to the main rate are proposed to reduce the rate by 1% to 20% from 1 April 2015. These further changes had not been substantively enacted at the balance sheet date and, therefore, are not included in the historical financial information.

The movements on the deferred tax account are as follows:

	2013	2012	2011
	£m	£m	£m
At 5 April	201	182	361
Income statement credit/(charge)	**7**	(26)	(2)
Income statement effect of corporation tax rate change	**7**	12	9
Adjustment to amounts transferred from acquisitions	**-**	-	5
Reclassification from current tax	**-**	-	(36)
Available for sale investments	**4**	-	1
Property revaluation	**1**	2	-
Retirement benefit obligations	**(46)**	119	(40)
Tax losses utilised	**(36)**	(53)	(88)
Effect of corporation tax rate change in other comprehensive income	**(14)**	(35)	(28)
Taxation on items through other comprehensive income	**(91)**	33	(155)
At 4 April	**124**	201	182

Deferred tax assets and liabilities are attributable to the following items:

	2013	2012	2011
	£m	£m	£m
Deferred tax assets			
Accelerated depreciation	**(63)**	(54)	(15)
Property revaluation	**3**	2	2
Tax losses carried forward	**87**	84	58
Retirement benefit obligations	**81**	123	77
Provisions for loan impairment	**11**	17	21
Other provisions	**35**	57	75
	154	229	218
Deferred tax liabilities			
Accelerated tax depreciation	**(1)**	(1)	(1)
Property revaluation	**(12)**	(13)	(18)
Other provisions	**(17)**	(14)	(17)
	(30)	(28)	(36)
Net deferred tax asset	**124**	201	182

The majority of deferred tax assets are anticipated to be recoverable after one year. The Group considers that there will be sufficient future trading profits in excess of profits arising from the reversal of existing taxable temporary differences to utilise the deferred tax asset. The tax losses carried forward have been assessed for recoverability against the Group's five year corporate plan forecast. The losses are expected to be fully utilised within three to four years. There is no time limit for utilising tax losses brought forward in the UK.

As at 4 April 2013 the Group held no unused capital losses (2012: £5 million, 2011: £5 million) for which no deferred tax asset is recognised.

Following changes to the taxation of foreign dividends there are no longer any unrecognised deferred tax liabilities in respect of unremitted earnings of overseas subsidiaries.

The deferred tax charge in the income statement comprises the following temporary differences (note 12):

	2013	**2012**	**2011**
	£m	*£m*	*£m*
Accelerated tax depreciation	**12**	43	8
Retirement benefit obligations	**(6)**	62	18
Provisions for loan impairment	**6**	2	2
Other	**25**	13	5
Tax losses carried forward	**(44)**	(94)	(31)
Effect of corporation tax rate change	**(7)**	(12)	(9)
	(14)	14	(7)

23 Deposits from banks

	2013	**2012**	**2011**
	£m	*£m*	*£m*
Deposits from banks are repayable from the balance sheet date in the ordinary course of business as follows:			
Accrued interest	**6**	10	7
Repayable on demand	**1,688**	836	1,048
Other amounts owed to banks with residual maturity repayable:			
In not more than three months	**242**	306	403
In more than three months but not more than one year	**250**	53	84
In more than one year but not more than five years	**1,001**	2,145	1,204
In more than five years	**43**	20	-
	3,230	3,370	2,746

Deposits from banks include £1,207 million (2012: £2,145 million, 2011: £1,249 million) in respect of sale and repurchase agreements. The carrying value of assets of £231 million (2012: £1,325 million, 2011: £227 million) sold under sale and repurchase agreements is included within investment securities – available for sale (see note 15).

24 Other deposits

	2013	2012	2011
	£m	*£m*	*£m*
Other deposits are repayable from the balance sheet date in the ordinary course of business as follows:			
Accrued interest	**5**	10	13
Repayable on demand	**362**	356	300
Other amounts owed to banks with residual maturity repayable:			
In not more than three months	**2,045**	2,572	2,315
In more than three months but not more than one year	**1,345**	1,049	1,034
In more than one year but not more than five years	**2,990**	2,260	1,223
In more than five years	**-**	652	924
	6,747	6,899	5,809

Other deposits comprise wholesale deposits placed with Treasury Division and amounts relating to the sale of PEBs by the Group on behalf of Legal & General.

The PEBs are held at a fair value of £2,985 million (2012: £2,890 million, 2011: £2,125 million) based on management's best estimate of the amounts that will be paid at contractual maturity.

Changes in fair value of the PEB liability are recognised in the income statement. A loss of £160 million was recognised during the year ended 4 April 2013 (2012: loss of £179 million, 2011: loss of £56 million). This impact is offset by changes in fair value of associated derivatives which are also recognised in the income statement.

The minimum amount on an undiscounted basis that the Group is contractually required to pay at maturity for the PEBs is £2,794 million (2012: £2,863 million, 2011: £2,232 million). The maximum additional amount which would also be payable at maturity in respect of additional investment returns on two tranches with a combined fair value of £80 million (2012: £77 million, 2011: £76 million) is uncapped. The maximum additional amount which would also be payable at maturity in respect of additional investment returns on all other tranches is £1,140 million (2012: £1,169 million, 2011: £748 million). The payment of additional investment returns is dependent upon performance of certain specified stock indices during the period of the PEB. The Group has entered into equity-linked derivatives with external counterparties which economically match the investment returns on the PEBs.

25 Due to customers

	2013	2012	2011
	£m	*£m*	*£m*
Amounts due to customers are repayable from the balance sheet date in the ordinary course of business as follows:			
Accrued interest	**43**	40	29
Repayable on demand	**3,812**	3,779	4,744
Other amounts owed to customers with residual maturity repayable:			
In not more than three months	**803**	457	362
In more than three months but not more than one year	**1,183**	1,201	459
In more than one year but not more than five years	**119**	356	168
	5,960	5,833	5,762

Amounts due to customer include savings deposit balances held in the Group's offshore subsidiary Nationwide International Limited.

Amounts classified as due to customers do not confer membership rights.

26 Debt securities in issue

	2013	2012	2011
	£m	*£m*	*£m*
Certificates of deposit and commercial paper	**7,849**	7,952	10,883
Fixed and floating rate notes	**16,120**	21,977	22,571
Other debt securities	**7,898**	7,677	3,989
	31,867	37,606	37,443
Fair value adjustment for micro hedged risk	**1,562**	1,248	365
	33,429	38,854	37,808
Debt securities in issue are repayable from the balance sheet date in the ordinary course of business as follows:			
Accrued interest	**99**	195	261
Residual maturity repayable:			
In not more than one year	**10,091**	13,616	14,881
In more than one year	**21,677**	23,795	22,301
	31,867	37,606	37,443
Fair value adjustment for micro hedged risk	**1,562**	1,248	365
	33,429	38,854	37,808

Debt securities in issue include £18,982 million (2012: £21,928 million, 2011: £17,510 million) secured on certain loans and advances to customers. Further information is given in note 17.

27 Provisions for liabilities and charges

	Bank levy	FSCS	Customer redress	Other provisions	Total
	£m	£m	£m	£m	£m
At 5 April 2012	5	111	105	74	295
Provisions utilised	**(13)**	**(46)**	**(36)**	**(31)**	**(126)**
Charge for the year	**16**	**68**	**73**	**8**	**165**
Release for the year	**-**	**-**	**-**	**(16)**	**(16)**
Net income statement charge	**16**	**68**	**73**	**(8)**	**149**
At 4 April 2013	**8**	**133**	**142**	**35**	**318**
At 5 April 2011	-	94	19	52	165
Provisions utilised	(11)	(42)	(17)	(15)	(85)
Charge for the year	16	59	103	59	237
Release for the year	-	-	-	(22)	(22)
Net income statement charge	16	59	103	37	215
At 4 April 2012	5	111	105	74	295
At 5 April 2010	-	93	9	88	190
Provisions utilised	-	(49)	(6)	(31)	(86)
Charge for the year	-	50	16	26	92
Release for the year	-	-	-	(31)	(31)
Net income statement charge/(release)	-	50	16	(5)	61
At 4 April 2011	-	94	19	52	165

Bank levy

The bank levy came into force on 1 January 2011 for certain UK banks, building societies and the UK operations of foreign banks. No charge was applied in the accounts to 4 April 2011 as the 2011 Finance Bill had not been enacted. The £16 million charge recognised in the year ended 4 April 2012 represents £3 million for the three month period 1 January 2011 to 4 April 2011 and £13 million for the year ended 4 April 2012.

The bank levy charge for the year ended 4 April 2013 of £16 million (2012: £16 million, 2011: £nil) is included within administrative expenses in the income statement.

Financial services compensation scheme (FSCS)

The FSCS, the UK's independent statutory compensation fund for customers of authorised financial services firms, pays compensation if a firm is unable to pay claims against it. The FSCS is funded by levies on the industry.

Following the default of a number of deposit takers, the FSCS borrowed funds from HM Treasury, which total approximately £18 billion, to meet the compensation costs for customers of those firms. The FSCS recovers the interest cost, together with ongoing management expenses, by way of annual levies on member firms. While it is anticipated that the majority of the borrowings will be repaid wholly from recoveries from the institutions concerned, the FSCS has advised of an expected shortfall. At current rates and based on latest information which is subject to change, the Group's share of the expected shortfall would total approximately £132 million which, in line with the intentions of the FSCS on timing of resultant levies, the Group expects to be recognised over three years beginning in the year ended 4 April 2013. A provision of £44 million has been recognised in the year ended 4 April 2013 in respect of the Group's share of the expected shortfall for the 2013/14 scheme year.

The Group also has a potential exposure to future levies resulting from the failure of the Dunfermline Building Society. The quantification and timing of such losses have yet to be determined.

The amount provided by the Group of £133 million is in respect of the 2012/13 and 2013/14 scheme years (2012: £111 million in respect of the 2011/12 and 2012/13 scheme years, 2011: £94 million in respect of the 2010/11 and 2011/12 scheme years).

Customer redress

The Group holds a provision for customer redress which reflects management's best estimate of the cost of complaints related to past sales of financial products, including PPI. The closing provision of £142 million (2012: £105 million, 2011: £19 million) reflects the costs of redress and associated administration that will be payable in relation to claims Nationwide expects to uphold.

The increase in PPI provision in the year ended 4 April 2012 followed significant developments in that year. The Financial Services Authority (FSA) released their policy statement PS10/12*: The assessment and redress of Payment Protection Insurance complaints* on 10 August 2010 and the Group has been monitoring the subsequent level of complaints. In line with the wider industry, Nationwide experienced a significant increase in complaints during the second half of the year ended 4 April 2012, driven by media focus and claims management company activity. This resulted in a re-assessment of the volume of complaints that the Group ultimately expects to receive, including significant levels of complaints where a customer has not been sold a product by Nationwide.

The Group has continued to experience a high volume of PPI complaints during the year ended 4 April 2013, a significant proportion of which relate to cases where there has been either no sale or no evidence of mis-selling. In light of this experience, the Group has continued to re-assess the ultimate level of complaints expected and the appropriateness of the provision. Further costs in relation to invalid claims are recognised in administrative expenses as incurred.

Of the Group's charge for the year ended 4 April 2013 in relation to PPI of £73 million (2012: £103 million) approximately 30% relates to the cost of processing claims, rather than the cost of customer redress.

Critical accounting estimates and judgements

The customer redress provisions in relation to PPI are calculated based upon management's best estimate of complaint volumes, referral rates to the Financial Ombudsman Service (FOS), uphold rates internally and with the FOS, response rates from customer contact activity relating to Nationwide's previous sales of PPI, average redress payments and complaint handling costs. The main sensitivity to the provision estimate is the back-book response rate, with each 1% increase in the expected level of complaints increasing the required provision by approximately £2 million at 4 April 2013 (2012: £5 million; 2011: £0.2 million). A 1% change in either the uphold rates or the average redress paid would also change the provision by approximately £1 million at 4 April 2013 (2012: £1 million; 2011: £0.1 million).

Other provisions

Other provisions include provisions for severance costs and a number of property related provisions. Provisions are made for the expected severance costs in relation to the Group's restructuring activities where there is present obligation and it is probable that the expenditure will be made. Within the net charge for the year ended 4 April 2011 there is a release of £14 million which is included in provisions for liabilities and charges in the income statement, all other components of the net charge for other provisions in the years ended 4 April 2011, 4 April 2012 and 4 April 2013 are included within administrative expenses.

28 Accruals and deferred income

Accruals and deferred income include £40 million (2012: £37 million, 2011: £44 million) of interest accrued on subordinated liabilities, £13 million (2012: £17 million, 2011: £17 million) of interest accrued on subscribed capital and £64 million (2012: £89 million, 2011: £94 million) of deferred income on PEBs.

Income received on PEBs is deferred and recognised in the income statement on an effective interest basis over the term of the product. Movements in the PEBs balance are as follows:

	2013	**2012**	**2011**
	£m	*£m*	*£m*
At 5 April	89	94	65
Additions	**-**	16	49
Releases	**(25)**	(21)	(20)
At 4 April	**64**	89	94

29 Subordinated liabilities

	Group		
	2013	**2012**	**2011**
	£m	*£m*	*£m*
5 ¼% Subordinated notes due 2014 ($225m)	**148**	142	139
5% Subordinated notes due 2015 ($400m)	**264**	252	248
Subordinated floating rate notes due 2016 (€300m)	**-**	-	265
7.125% Subordinated notes due 2016 (£)	**-**	-	75
5 ¾% Callable reset subordinated notes 2016 (£)	**-**	-	35
5 ¼% Subordinated notes due 2018 (£)	**-**	200	200
$8^5/_8$% Subordinated notes due 2018 (£)	**125**	125	125
6.73% Subordinated loan due 2019 (£)	**15**	15	15
6.75% Subordinated loan due 2020 (€750m)	**635**	620	661
5.25% Subordinated loan due 2020 (£)	**150**	150	150
6.5% Callable reset subordinated notes 2022 (£)	**30**	30	30
4.125% Subordinated loan due 2023 (€1,250m)	**1,059**	-	-
	2,426	1,534	1,943
Fair value adjustment for micro hedged risk	**130**	119	40
Unamortised premiums and issue costs	**(16)**	(9)	(10)
	2,540	1,644	1,973

All of the Group's subordinated liabilities are unsecured. The Group may, with the prior consent of the PRA redeem some of the subordinated notes early as follows:

- All or some of the $8^5/_8$% notes due 2018 at the higher of par (100%) or the benchmark 8 ¾% 2017 gilt, by giving not less than 30 nor more than 60 days notice to the holders.

- All of the 6.73% subordinated loan due 2019 may be redeemed on 7 April 2014, five years before the final maturity date, by giving no less than two days notice to the holders. In the event that the Group does not redeem the notes early the interest rate will convert to a rate referenced to the then current five year gilt rate plus 3.1%.

- All of the 5.25% subordinated loan due 2020 may be redeemed on 23 November 2015, five years before the final maturity date, by giving not less than 30 days notice to the holders. In the event that the Group does not redeem the notes early the interest rate will convert to a floating rate equal to the then current 3 month Libor plus 1.54%.

- All or some of the 6.5% notes due 2022 on 1 March 2017 and 1 September 2017. If the issue is not repaid on the first call date, the coupon will be reset to yield 300 basis points over the prevailing five year gilt benchmark. These notes were acquired on the acquisition of the Cheshire Building Society.

- All, but not some only, of the 4.125% notes due 2023 at par (100%) may be redeemed on 20 March 2018, by giving not less than 30 nor more than 60 days notice. In the event the Group does not redeem the notes on 20 March 2018 the interest rate will convert to the five year swap rate plus 3.3%.

The subordinated notes rank pari passu with each other and behind the claims against the Group of all depositors, creditors and investing members (other than holders of permanent interest bearing shares) of the Group.

The interest rate risk arising from the issuance of fixed rate subordinated liabilities has been mitigated through the use of interest rate swaps.

The Group, with the consent of the former regulator the FSA, redeemed early the following:

- In October 2011 the £75 million 7.125% subordinated notes due 2016 at par.

- In December 2011 the £35 million 5¾% subordinated notes due 2016 at par and the €300 million subordinated floating rate notes due 2016 at par at a sterling equivalent cost of £250 million.

- In November 2012 £200 million 5¼% subordinated notes due 2018 at par.

30 Subscribed capital

	2013	2012	2011
	£m	*£m*	*£m*
Floating rate permanent interest bearing shares (converted 2012/13)	**3**	350	350
6.875% Permanent interest bearing shares	**30**	30	30
7.971% Permanent interest bearing shares	**200**	200	200
7.25% Permanent interest bearing shares	**60**	60	60
6.25% Permanent interest bearing shares	**125**	125	125
5.769% Permanent interest bearing shares	**400**	400	400
7.859% Permanent interest bearing shares	**100**	100	100
Floating rate permanent interest bearing shares	**10**	10	10
6% Permanent interest bearing shares	**140**	140	140
	1,068	1,415	1,415
Fair value adjustment for micro hedged risk	**270**	248	137
Unamortised premiums and issue costs	**(34)**	(38)	(42)
	1,304	1,625	1,510

All permanent interest bearing shares (PIBS) are unsecured and denominated in sterling. The PIBS are only repayable with the prior consent of the PRA as follows:

- The 7.971% PIBS are repayable, at the option of the Group, in whole on 13 March 2015 or any fifth anniversary thereafter.

- The 7.25% PIBS are repayable, at the option of the Group, in whole on 5 December 2021 and every fifth successive 5 December thereafter.

- The 6.25% PIBS are repayable, at the option of the Group, in whole on 22 October 2024 and every fifth successive 22 October thereafter.

- The 5.769% PIBS are repayable, at the option of the Group, in whole on 6 February 2026 or any fifth anniversary thereafter.

- The 7.859% PIBS are repayable, at the option of the Group, in whole on 13 March 2030 or any fifth anniversary thereafter.

If the above five tranches of PIBS are not repaid on a call date then the interest rate is reset at a margin to the yield on the then prevailing five year benchmark gilt rate.

- Between December 2012 and March 2013 the Group, with the consent of the FSA, redeemed £347 million of 6.024% PIBS at 88%. This resulted in a net gain of £43 million in other operating income (see Note 7). The remaining £3 million of PIBS were converted to floating rate permanent interest bearing shares (converted 2012/13). Interest is payable on the PIBS at a margin of 50 basis points over 3 month Libor. If these PIBS have not been repaid by 6 February 2018, the interest rate will reset at a margin of 150 basis points over 3 month Libor.

- The 6.875% PIBS are repayable at the option of the Group, in whole on 10 January 2019, or any fifth anniversary thereafter. If the PIBS are not repaid on a call date, then the interest rate is reset at a margin of 300 basis points over the yield on the prevailing five year gilt benchmark. These PIBS were acquired on the acquisition of the Cheshire Building Society.

- The floating rate PIBS are only repayable in the event of winding up the Group. Interest is payable on the PIBS at 2.4% above 6 month Libor. These PIBS were acquired on the acquisition of the Cheshire Building Society.

- The 6% PIBS are repayable at the option of the Group, in whole on 15 December 2016, or any interest coupon date thereafter. If the PIBS are not repaid on their first call date then the interest rate is reset at a margin of 249 basis points over 3 month Libor. These PIBS were acquired on the acquisition of the Derbyshire Building Society.

PIBS rank pari passu with each other. They are deferred shares of the Group and rank behind the claims against the Group of all subordinated noteholders, depositors, creditors and investing members of the Group.

The interest rate risk arising from the issuance of fixed rate PIBS has been mitigated through the use of interest rate swaps.

31 Retirement benefit obligations

	2013	**2012**	**2011**
	£m	*£m*	*£m*
Present value of funded obligations	**3,813**	3,594	2,982
Fair value of fund assets	**(3,471)**	(3,089)	(2,695)
	342	505	287
Present value of unfunded obligations	**12**	12	13
	354	517	300

The Group operates both defined benefit and defined contribution arrangements. The principal defined benefit pension arrangement is the Nationwide Pension Fund. This is a contributory defined benefit arrangement, with both final salary and career average revalued earnings (CARE) sections. The Fund was closed to new entrants in 2007.

Employees are entitled to annual pensions on retirement at age 65 of one sixtieth of career average earnings (revalued to retirement) for each year of service after 1 April 2011. Benefits accrued prior to 1 April 2011 varied with the majority being one fifty fourth of final salary. Benefits are also payable on death and following other events such as withdrawing from active service. No other post-retirement benefits are provided to these employees.

The Fund is administered by a board of trustees which is legally separate from the Group. The Trustees are composed of representatives of both the employer and employees, plus an independent trustee. The Trustees are required by law to act in the interest of all relevant beneficiaries and are responsible for the investment policy with regard to the assets plus the day to day administration of the benefits.

Approximately 40% of the defined benefit obligations are attributable to current employees, 25% to former employees and 35% to current pensioners. The duration of the obligation is approximately 22 years reflecting the split of the obligation between current employees (26 years), deferred members (24 years) and current pensioners (14 years).

UK legislation requires that pension schemes are funded prudently. The last funding valuation of the Fund was carried out by a qualified actuary as at 31 March 2010 and showed a deficit of £320 million (after allowing for some post-valuation experience). The Group paid deficit contributions which were expected to recover this deficit during 2010/11 and 2011/12. The funding valuation as at 31 March 2013 is currently in progress.

Contributions to the funds are assessed in accordance with the advice of the independent actuaries and are agreed between the Trustees and the Group. The contribution rates applicable for the year ended 4 April 2013, including employees' contributions payable under salary sacrifice arrangements, varied between 9.0% (for defined contribution arrangements) and 23.3% (for the defined benefit arrangements).

The amounts recognised in the income statements are as follows:

	2013	**2012**	**2011**
	£m	*£m*	*£m*
Defined benefit current service cost	**56**	50	77
Defined contribution cost	**19**	16	11
Past service cost	**(2)**	(4)	(5)
Administrative expenses	**4**	4	4
Included in employee costs (note 9)	**77**	66	87
Interest on net defined benefit liability (note 4)	**23**	4	25
	100	70	112

Changes in the present value of defined benefit obligations (including unfunded obligations) are as follows:

	2013	**2012**	**2011**
	£m	*£m*	*£m*
At 5 April	3,606	2,995	2,976
Current service cost	**56**	50	77
Past service cost	**(1)**	(2)	1
Interest expense on obligation	**171**	166	165
Employee contributions	**1**	1	1
Experience (gains)/losses on plan assumptions	**(5)**	31	(68)
Changes in demographic assumptions	**-**	-	70
Changes in financial assumptions	**75**	436	(154)
Benefits paid	**(78)**	(71)	(73)
At 4 April	**3,825**	3,606	2,995

The changes in financial assumptions of £75 million for the year ended 4 April 2013 arose primarily due to an increase in the inflation rates used which increased the measurement of the defined benefit obligation.

The changes in financial assumptions of £436 million for the year ended 4 April 2012 arose primarily due to a reduction in the discount rate used.

The change in financial assumptions of £154 million in the year ended 4 April 2011 included £60 million arising from using CPI, rather than RPI, to index deferred pensions before retirement.

The past service cost of £5 million (2012: £2 million, 2011: £6 million) includes amounts that were provided for in previous years as part of the Group's restructuring costs.

Changes in the fair value of plan assets for the pension funds are as follows:

	2013	**2012**	**2011**
	£m	*£m*	*£m*
At 5 April	3,089	2,695	2,468
Interest income on assets	**148**	162	140
Return on assets greater/(less) than discount rate	**261**	10	(6)
Administrative expenses	**(4)**	(4)	(4)
Contributions by employer	**54**	296	169
Employee contributions	**1**	1	1
Benefits paid	**(78)**	(71)	(73)
At 4 April	**3,471**	3,089	2,695

The actual return on assets was £409 million (2012: £172 million, 2011: £134 million). Contributions paid by the Group in the year included additional deficit contributions of £nil (2012: £241 million, 2011: £99 million).

The major categories of plan assets for the pension funds, stated at fair value, are as follows:

	2013	2012	2011
	£m	*£m*	*£m*
Listed equities (quoted)	**1,516**	1,245	1,293
Government bonds (quoted)	**893**	903	576
Corporate bonds (quoted)	**448**	308	235
Infrastructure (unquoted)	**229**	188	149
Property (quoted)	**100**	98	95
Property (unquoted)	**104**	100	100
Private equity investments (mainly unquoted)	**164**	133	57
Cash	**104**	46	127
Other assets and liabilities (mainly quoted)	**(87)**	68	63
	3,471	3,089	2,695

None of the funds' assets are invested in the Nationwide Group (2012 and 2011: £nil).

Assets described as quoted are based on unadjusted prices quoted in an active market and represent level 1 assets as defined by IFRS.

The Funds' liabilities are partly hedged by matching assets, primarily index linked government bonds and fixed rate government and corporate bonds.

Government bonds include an item with a carrying value of £110 million (2012 and 2011: £nil) which has been sold under a sale and repurchase agreement. The asset has not been derecognised as the Fund has retained substantially all the risks and rewards of ownership. The proceeds of the sale and repurchase agreement of £110 million (2012 and 2011: £nil) are included within other assets and liabilities in the above table.

The principal actuarial assumptions used were as follows:

	2013	2012	2011
	%	%	%
Discount rate	**4.8**	4.8	5.6
Future salary increases	**4.4**	4.3	4.5
Future pension increases (maximum 5%)	**3.1**	3.0	3.2
Retail price index (RPI) inflation	**3.4**	3.3	3.5
Consumer price index (CPI) inflation	**2.4**	2.3	2.8

The assumptions on mortality are based on standard mortality tables which allow for future mortality improvements. The assumptions made are illustrated by the following years of life expectancy at age 60:

	2013	2012	2011
Retire at 4 April 2013			
Males	**28.5**	28.4	28.4
Females	**30.9**	30.8	30.7
Retire at 4 April 2033			
Males	**30.5**	30.4	30.3
Females	**31.6**	31.5	31.4

The Group estimates that its contributions to the defined benefit pension funds during the year ended 4 April 2014 will be £46 million.

The key assumptions used to calculate the pension obligation are discount rate, inflation and mortality. If different assumptions were used, this could have a material effect on the reported obligation. The sensitivity of the results to these assumptions are as follows:

Change in key assumptions at 4 April 2013	Deficit currently reported	Impact of assumption change	Deficit using changed assumption
	£m	*£m*	*£m*
0.1% increase in discount rate	**342**	**(86)**	**256**
0.1% increase in inflation	**342**	**75**	**417**
One year increase in life expectancy at age 60	**342**	**93**	**435**

The above sensitivities apply to changing individual assumptions in isolation, in practice relationships are likely to be related, especially between the discount rate and inflation. Furthermore, a change in market yields could impact asset values (in particular bonds) in the opposite direction to the obligations.

Pension Risk

The most significant risks the Group is exposed to are:

Asset Volatility

The liabilities are calculated using a discount rate set with reference to corporate bond yields; if assets underperform this yield, this will create a deficit. The Fund holds a significant proportion of growth assets (e.g. equities, diversified growth fund and global absolute return fund) which, though expected to outperform corporate bonds in the long term, create volatility and risk in the short term. The allocation to growth assets is monitored to ensure it remains appropriate given the Fund's long term objectives.

Changes in bond yields

Decreases in corporate bond yields will increase the value placed on the funding obligation, although this will be partially offset by an increase in the value of the Fund's bond holdings.

Inflation risk

The majority of the benefit obligations are linked to inflation, and higher inflation will lead to higher liabilities (although, in most cases, caps on the level of inflationary increases are in place to protect against extreme inflation). Where assets are correlated with inflation, the increase in the obligation may be partly mitigated. Where assets are correlated with inflation, the increase in the obligation may be partly mitigated.

Life expectancy

The majority of the obligations are to provide benefits for the life of the members, therefore increases in life expectancy will result in an increase in the funding obligation.

Pension legislation

The Fund is exposed to possible changes in pension legislation which could increase the funding obligation.

32 Capital and leasing commitments

	2013	2012	2011
	£m	*£m*	*£m*
Capital commitments			
Capital expenditure contracted for but not provided for in the Accounts	**80**	102	122

The Group leases various offices, branches and other premises under non-cancellable operating lease arrangements. The leases have various terms, escalation, renewal rights and in some cases contingent rent payable.

Future minimum payments under operating leases relating to land and buildings were as follows:

	2013	2012	2011
	£m	*£m*	*£m*
Leasing commitments at 4 April			
Amounts falling due:			
Within one year	**31**	31	31
Between one and five years	**100**	90	93
After five years	**169**	126	123
	300	247	247

Future minimum lease payments receivable under non-cancellable operating leases were as follows:

	2013	2012	2011
	£m	*£m*	*£m*
Leasing payments receivable as lessor at 4 April			
Amounts falling due:			
Within one year	**6**	5	5
Between one and five years	**14**	12	13
After five years	**18**	13	12
	38	30	30
Subleasing payments receivable under non-cancellable subleases	**16**	10	8

33 Contingent liabilities

The Group does not expect the ultimate resolution of any threatened or actual legal proceedings to have a significant adverse effect on the financial position of the Group.

34 Lending risk

Lending risk is considered by reference to three sub-categories as follows:

Risk category	Definition
Retail (secured and unsecured)	The risk that a borrower or counterparty fails to pay the interest or to repay the principal on a loan or other financial instrument within the prime mortgage, specialist lending or personal loan, credit card and banking portfolios.
Commercial	The risk that a borrower or counterparty fails to pay the interest or to repay the principal on a loan or other financial instrument within the commercial lending portfolio.
Treasury	The risk that a borrower or counterparty fails to pay the interest or to repay the principal on a loan or other financial instrument within the treasury liquidity and non-core portfolios.

Lending risk includes all aspects of credit risk including concentration risk and extension risk.

Comprehensive credit risk management methods and processes are established as part of the Group's overall governance framework to measure, mitigate and manage credit risk within its risk appetite. As a mutual, the Group maintains a conservative approach to risk as shown by the quality of its balance sheet. Lending risk portfolios are managed within concentration limits and are subjected to stress testing and scenario analysis to simulate potential outcomes and calculate their associated impact.

Maximum exposure to credit risk

The following table presents the Group's maximum exposure to credit risk of on balance sheet and off balance sheet financial instruments before taking into account any collateral held or other credit enhancements and after allowance for impairment where appropriate. The maximum exposure to loss for off balance sheet financial instruments is considered to be their contractual nominal amounts.

2013	**Carrying value**	**Commitments**	**Maximum credit risk exposure**
	£m	*£m*	*£m*
Cash	**7,886**	**-**	**7,886**
Loans and advances to banks	**2,522**	**423**	**2,945**
Investment securities – AFS	**13,421**	**-**	**13,421**
Derivative financial instruments	**4,212**	**-**	**4,212**
Fair value adjustment for portfolio hedged risk	**872**	**-**	**872**
Loans and advances to customers	**159,587**	**6,736**	**166,323**
Investments in equity shares	**28**	**-**	**28**
	188,528	**7,159**	**195,687**

2012	**Carrying value**	**Commitments**	**Maximum credit risk exposure**
	£m	*£m*	*£m*
Cash	8,126	-	8,126
Loans and advances to banks	2,914	437	3,351
Investment securities – AFS	23,325	-	23,325
Derivative financial instruments	4,176	-	4,176
Fair value adjustment for portfolio hedged risk	1,330	-	1,330
Loans and advances to customers	154,169	4,853	159,022
Investment in equity shares	29	-	29
	194,069	5,290	199,359

2011	**Carrying value**	**Commitments**	**Maximum credit risk exposure**
	£m	*£m*	*£m*
Cash	6,130	-	6,130
Loans and advances to banks	4,181	199	4,380
Investment securities – AFS	21,540	-	21,540
Derivative financial instruments	3,961	-	3,961
Fair value adjustment for portfolio hedged risk	1,634	-	1,634
Loans and advances to customers	149,417	5,637	155,054
Investment in equity shares	103	-	103
	186,966	5,836	192,802

In addition to the figures shown above, the Group has, as part of its retail operations, commitments of £7,169 million (2012: £6,721 million, 2011: £6,857 million) in respect of credit card and overdraft facilities. These commitments represent agreements to lend in the future, subject to certain conditions. Such commitments are cancellable by the Group, subject to notice requirements, and given their nature are not expected to be drawn down to the full level of exposure.

Retail (secured and unsecured) credit risks

Retail credit risk profile

The Group's loans and advances to customers continue to have a low risk profile when compared to industry benchmarks. The composition of lending has remained broadly consistent over the year.

By their nature, the Group's retail lending books comprise a large number of smaller loans which are broadly homogenous and have low volatility of credit risk outcomes and are intrinsically highly diversified.

Group loans and advances to customers, gross of impairment provisions can be analysed as follows:

	2013		2012		2011	
	£m	*%*	*£m*	*%*	*£m*	*%*
Loans and advances to customers						
Prime residential mortgages	**110,619**	**69**	105,589	69	104,269	70
Specialist residential mortgages	**24,939**	**16**	23,258	15	20,385	13
Total residential mortgages	**135,558**	**85**	128,847	84	124,654	83
Consumer banking	**3,488**	**2**	2,968	2	2,466	2
Retail loan portfolio	**139,046**	**87**	131,815	86	127,120	85
Commercial lending	**19,916**	**13**	21,508	14	22,023	15
Other lending operations	**436**	**-**	493	-	492	-
Total gross balance	**159,398**	**100**	153,816	100	149,635	100

Geographical concentration

Residential mortgages are only secured against UK properties. The geographical split has not changed significantly over the year ended 4 April 2013 and is shown below:

	2013	2012	2011
	%	*%*	*%*
Greater London	**22**	22	22
Central England	**22**	22	22
Northern England	**20**	19	19
South East England (excluding London)	**11**	12	12
South West England	**9**	9	9
Scotland	**9**	9	9
Wales and Northern Ireland	**7**	7	7
Total	**100**	100	100

Specialist loans

The Group's residential mortgages include both prime and specialist loans. All new specialist lending is originated through The Mortgage Works (UK) plc (TMW), exclusively in the buy to let market. Self certified lending was originated historically by both TMW and UCB (Nationwide's centralised lending subsidiary) but this type of lending was discontinued in 2009. The majority of near prime and sub prime balances were acquired from the Derbyshire and Cheshire building societies.

The make up of specialist lending is as follows:

	2013		2012		2011	
	£m	*%*	*£m*	*%*	*£m*	*%*
Self-certified	**3,297**	**13**	3,609	16	4,058	20
Buy to let	**20,081**	**80**	18,041	77	14,633	72
Near prime	**1,162**	**5**	1,201	5	1,250	6
Sub prime	**399**	**2**	407	2	444	2
Specialist lending	**24,939**	**100**	23,258	100	20,385	100

Prime mortgage assets acquired from the Bank of Ireland in December 2011, although acquired by TMW, are categorised as prime business.

Loan to value

The quality of all new residential mortgage lending remains strong as focus remains on affordability and LTV ratios. The value of residential property is updated on a monthly basis to reflect changes in the Nationwide House Price Index (HPI). The total mortgage book as at 4 April 2013 is analysed by LTV band in the table below, along with an analysis of gross new residential mortgage lending during the year by borrower type:

	2013	**2012**	**2011**
	%	%	%
Whole book analysis calculated on a volume (i.e. number of cases) basis:			
Loan to value analysis:			
<50%	**47**	50	52
50% - 60%	**10**	10	9
60% - 70%	**12**	11	11
70% - 80%	**15**	13	11
80% - 90%	**11**	10	10
90% - 100%	**4**	4	5
>100%	**1**	2	2
	100	100	100
Average loan to value of stock (indexed)	**51**	50	49
Average loan to value of new business	**67**	63	66
New business profile:			
First time buyers	**27**	17	23
Home movers	**29**	25	34
Remortgagers	**23**	27	12
Buy to let	**21**	31	31
	100	100	100

	2013	2012	2011
	%	%	%
Whole book analysis calculated on a value basis:			
Loan to value analysis:			
<50%	**28**	30	31
50% - 60%	**12**	12	12
60% - 70%	**17**	16	15
70% - 80%	**21**	19	17
80% - 90%	**15**	15	15
90% - 100%	**5**	6	8
>100%	**2**	2	2
	100	100	100
Average loan to value of stock (indexed)	**62**	62	62
Average loan to value of new business	**71**	67	70
New business profile:			
First time buyers	**26**	17	22
Home movers	**36**	32	43
Remortgagers	**22**	26	10
Buy to let	**16**	25	25
	100	100	100

The new business profile and average loan to value of new business above exclude further advances.

Performance of the mortgage books has remained strong with the number of residential mortgages three or more months in arrears as a proportion of total mortgages reducing to 0.72% at 4 April 2013 (2012: 0.73%, 2011: 0.77%) This compares favourably with the CML industry average of 1.89% (2012: 1.95% restated by CML, 2011: 2.09%). The number of Group borrowers in possession of 596 (2012: 1,097, 2011: 938) represents 0.04% of the total portfolio (2012: 0.08%, 2011: 0.07%).

Identifying impaired and non-performing loans

Impaired and non-performing loans are identified by arrears status. Impaired accounts are those defined as greater than or equal to three months in arrears, and also include accounts subject to possession, litigation and bankruptcy where arrears are greater than or equal to one month. Non-performing accounts represent those which are past due but not yet impaired.

The table below provides further information on retail loans and advances by payment due status:

2013	**Prime lending**	**Specialist lending**	**Consumer banking**	**Total**	
	£m	*£m*	*£m*	*£m*	%
Not impaired:					
Neither past due nor impaired	**108,223**	**23,059**	**3,363**	**134,645**	**97**
Past due up to 3 months but not impaired	**1,832**	**1,154**	**60**	**3,046**	**2**
Impaired	**564**	**726**	**65**	**1,355**	**1**
	110,619	**24,939**	**3,488**	**139,046**	**100**

2012	**Prime lending**	**Specialist lending**	**Consumer banking**	**Total**	
	£m	*£m*	*£m*	*£m*	%
Not impaired:					
Neither past due nor impaired	103,149	21,285	2,860	127,294	97
Past due up to 3 months but not impaired	1,873	1,189	48	3,110	2
Impaired	567	784	60	1,411	1
	105,589	23,258	2,968	131,815	100

2011	**Prime lending**	**Specialist lending**	**Consumer banking**	**Total**	
	£m	*£m*	*£m*	*£m*	%
Not impaired:					
Neither past due nor impaired	101,763	18,204	2,335	122,302	96
Past due up to 3 months but not impaired	1,934	1,348	37	3,319	3
Impaired	572	833	94	1,499	1
	104,269	20,385	2,466	127,120	100

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

Individual provisions are assigned to accounts in possession and a collective provision is assigned to those less than three months past due and against the performing accounts.

Impaired retail assets are further analysed as follows:

2013	**Prime lending**	**Specialist lending**	**Consumer banking**	**Total**	
	£m	*£m*	*£m*	*£m*	%
Impaired status:					
Past due 3 to 6 months	**260**	**297**	**41**	**598**	**44**
Past due 6 to 12 months	**190**	**208**	**24**	**422**	**31**
Past due over 12 months	**96**	**134**	**-**	**230**	**17**
Possessions	**18**	**87**	**-**	**105**	**8**
	564	**726**	**65**	**1,355**	**100**

2012	**Prime lending**	**Specialist lending**	**Consumer banking**	**Total**	
	£m	*£m*	*£m*	*£m*	%
Impaired status:					
Past due 3 to 6 months	268	279	37	584	41
Past due 6 to 12 months	184	200	23	407	29
Past due over 12 months	85	138	-	223	16
Possessions	30	167	-	197	14
	567	784	60	1,411	100

2011	Prime lending	Specialist lending	Consumer banking	Total	
	£m	£m	£m	£m	%
Impaired status:					
Past due 3 to 6 months	271	290	50	611	41
Past due 6 to 12 months	187	228	44	459	30
Past due over 12 months	81	185	-	266	18
Possessions	33	130	-	163	11
	572	833	94	1,499	100

Possession balances represent loans against which the Group has taken ownership of properties pending their sale. Possession is only enforced once all other recovery options have been exhausted and this, together with the quality of our portfolio, is reflected in the Group's possession rate which is approximately 40% of the market average.

For performing accounts a behavioural scorecard is used to assign default probabilities and takes into consideration internal and external performance in addition to historic positions. The default probabilities are adjusted to reflect performance of accounts which are currently or have recently experienced forbearance activity.

The Group offers a number of support options to both secured and unsecured customers. The credit policies and provisioning treatment relating to these activities have been proactively reviewed over the year ended 4 April 2013 to ensure alignment to good practice as defined by the Regulator. The options offered may be classified into three categories:

- Change in terms
- Forbearance
- Repair.

Change in terms

Changes in terms relate to a concession or permanent change, which results in amended monthly cash flows. The options available include:

- Payment holidays
- Interest only conversions
- Term extensions.

Payment holidays

Performing customers with loans on standard terms and conditions effective before March 2010, who are not experiencing financial difficulty and meet required criteria (including credit score), are permitted to apply for a payment holiday and make reduced or nil payments for an agreed period of time of up to 12 months (depending on reason). As at 4 April 2013, 1,306 accounts (2012: 1,848 accounts, 2011: 2,313 accounts) were subject to a payment holiday. The performance of customers who have taken a payment holiday is reflected within the Group's provisioning methodology.

Interest only conversions

Interest only conversions allow performing customers meeting required criteria to apply for an interest only conversion, normally reducing their monthly commitment. Following tightening of the Group's policy in relation to interest only conversions in 2011/12, the facility was completely withdrawn in March 2012. The performance of interest only conversions is in line with that of the wider portfolio and therefore no adjustment is made to the Group's provisioning methodology for these loans.

Term extensions

The Group allows performing customers to apply to extend the term of their mortgage. During the year ended 4 April 2013, 17,290 accounts (2012: 15,032 accounts, 2011: 13,964 accounts) extended their term. The performance of term extensions is in line with that of the wider portfolio and therefore no adjustment is made to the Group's provisioning methodology for these loans.

Forbearance

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

As at 4 April 2013, 1,913 accounts (2012: 2,474 accounts, 2011: 2,802 accounts) representing 0.2% (2012: 0.2%, 2011: 0.3%) of total prime mortgage balances were on this concession. The Group's provisioning methodology reflects the latest performance on these accounts.

Repair

When a customer emerges from financial difficulty, the Group offers the ability to capitalise arrears, resulting in the account being repaired. Customers are only permitted to capitalise arrears where they have demonstrated their ability to meet a repayment schedule at normal commercial terms for a continuous six month period, or if they are able to overpay such that six months' payments are made in a four month period. During the year ended 4 April 2013, 187 accounts (2012: 546 accounts, 2011: 785 accounts) had an arrears capitalisation. Once capitalised the loans are categorised as not impaired as long as contractual repayments are maintained. Capitalised accounts have a higher than average propensity to roll into arrears and this is recognised within the Group's provisioning methodology.

For those customers who are unable to repay their capital at term expiry, they may be offered a term extension. These extensions are typically on a capital and interest basis over a relatively short term, normally less than five years, and aim to recover the outstanding balance as quickly as possible whilst ensuring the monthly payment remains manageable to the customer. During the year ended 4 April 2013, 1,794 accounts (2012: 2,417 accounts, 2011: 1,739 accounts) had an extension at term expiry. No provisioning methodology adjustment is made for these accounts as a result of the low balance and LTV profile.

The options outlined above apply predominantly to the prime originated portfolio. The table below shows the stock of loans still on the books as at 4 April 2013 that have been subject to forbearance at some point:

	2013		**2012**		**2011**	
	£m	**% of total prime loans and advances**	*£m*	**% of total prime loans and advances**	*£m*	**% of total prime loans and advances**
Change in terms	**19,830**	**18**	20,048	19	20,165	20
Forbearance	**1,536**	**1**	1,441	1	1,181	1
Repair	**519**	**-**	504	-	1,131	1

Please note that the above three categories are not mutually exclusive.

Retail collateral

Collateral held against past due or impaired retail residential mortgages is as follows:

2013	**Prime lending**		**Specialist lending**	
	£m	*%*	*£m*	*%*
Past due but not impaired	**1,827**	**100**	**1,141**	**99**
Impaired	**541**	**99**	**618**	**97**
Possessions	**17**	**94**	**72**	**83**
	2,385	**100**	**1,831**	**97**

2012	**Prime lending**		**Specialist lending**	
	£m	*%*	*£m*	*%*
Past due but not impaired	1,867	100	1,172	99
Impaired	532	99	595	96
Possessions	29	96	138	83
	2,428	100	1,905	97

2011	**Prime lending**		**Specialist lending**	
	£m	*%*	*£m*	*%*
Past due but not impaired	1,928	100	1,334	99
Impaired	535	99	676	96
Possessions	31	94	116	89
	2,494	100	2,126	97

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

Negative equity on retail residential mortgages is as follows:

	2013		**2012**		**2011**	
	Prime lending	**Specialist lending**	**Prime lending**	**Specialist lending**	**Prime lending**	**Specialist lending**
	£m	*£m*	*£m*	*£m*	*£m*	*£m*
Past due but not impaired	**5**	**13**	6	17	6	14
Impaired	**5**	**21**	5	22	4	27
Possessions	**1**	**15**	1	29	2	14
	11	**49**	12	68	12	55

Consumer banking

In consumer banking, the percentage of delinquent balances more than 30 days in arrears has shown an improvement on personal loans but increased marginally on FlexAccount and credit card. All books have increased in size year on year, and where published data is available Nationwide's performance compared with the industry remains favourable.

	4 April 2013 Delinquent balances	4 April 2013 Balances before Provisions	2013	2012	2011
	£m	£m	%	%	%
FlexAccount (overdraft balances)	**23.4**	**238.0**	**9.81**	9.18	10.46
Personal loans	**52.4**	**1,783.9**	**2.94**	2.98	5.09
Credit card	**47.5**	**1,465.8**	**3.24**	3.34	3.36

The prior years' analyses for personal loans have been amended to present the information on a consistent basis with the current year.

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

Commercial credit risks

Commercial and other lending: credit risk profile

Commercial lending comprises loans secured on commercial property, loans to Registered Social Landlords and loans advanced in relation to Project Finance.

Other lending operations includes £219 million (2012: £262 million, 2011: £241 million) of secured lending relating to a European commercial loan portfolio and a loan secured by a senior ABS reference portfolio, and unsecured lending of £217 million (2012: £231 million, 2011: £251 million) relating to a student loan portfolio. These investments were acquired by the Treasury Division and are therefore held within the head office functions business segment.

Subsequent to the year end, the Group disposed of the investment that exposed it to the risk and rewards of the company which owned the £217 million unsecured lending relating to a student loan portfolio. This company was previously consolidated within the Group and was deconsolidated from the date of the disposal.

Commercial lending: risk concentrations

The Group's commercial loan portfolio on a gross basis comprises the following:

	2013		2012		2011	
	£m	%	£m	%	£m	%
Property Finance	**10,192**	**51**	11,580	54	12,282	56
Registered Social Landlords	**8,217**	**41**	8,450	39	8,210	37
Project Finance	**1,507**	**8**	1,478	7	1,531	7
	19,916	**100**	21,508	100	22,023	100

Loans to registered social landlords are secured on residential property and loans advanced in relation to Project Finance are secured on cash flows from government backed contracts. The Group has never suffered losses on lending in these markets and there are currently no arrears of three months or more on these portfolios.

The Group's Property Finance portfolio is well diversified by industry type, location and by borrower, with only low levels of exposure to development finance of £51 million (2012: £142 million, 2011: £172 million). Within the Property Finance portfolio is a non UK element of £1.0 billion (2012: £1.1 billion, 2011: £1.1 billion) which is almost entirely exposed to the German real estate market.

The proportion of Property Finance cases three months or more in arrears as at 4 April 2013 was 4.50% (2012: 3.66%, 2011: 3.45%) , and equates to 325 cases (2012: 299 cases, 2011: 306 cases).

An analysis of Property Finance sector concentrations is provided below:

	2013		**2012**		**2011**	
	£m	*%*	*£m*	*%*	*£m*	*%*
Retail	**3,151**	**31**	3,570	31	3,868	32
Office	**2,321**	**23**	2,670	23	2,946	24
Residential	**1,707**	**17**	1,913	16	1,858	15
Industrial and warehouse	**1,683**	**16**	2,006	17	2,134	17
Leisure and hotel	**1,162**	**11**	1,216	11	1,265	10
Other	**168**	**2**	205	2	211	2
	10,192	**100**	11,580	100	12,282	100

The prior years' analyses have been amended to present the information on a consistent basis with the current year.

In terms of counterparty concentration, the largest single commercial customer, including undrawn commitments, represents only 1.5% (2012: 1.4%, 2011: 1.4%) of the total book.

Commercial lending: credit performance

Nationwide adopts robust credit management policies and processes designed to recognise and manage the risks arising, or likely to arise from the portfolio. All commercial credit facilities are reviewed annually as a minimum and the Group has detailed processes to identify customers exhibiting, or who may be vulnerable to, financial distress and which prompt more frequent review, where appropriate.

Where such customers are identified, they are typically transferred at an early stage to the Commercial Specialist Support Unit to ensure that early warning signs are acted upon, appropriate action is taken and, where possible, the Group works with the customer to try to resolve the issues and to restore the loan to a financially viable position. These dedicated teams, supported by daily arrears monitoring and watchlists, maintain a focus on early intervention to minimise credit losses.

Non performing loans are defined as those with early stage arrears (less than three months), whilst impaired loans are those that:

- are three or more months in arrears, or
- have a provision applied when a loss event has been identified.

The Group will seek to support customers and restructure non-performing or impaired loans, but only where the Group's assessment of future cash flows provides sufficient evidence to suggest that such approach will serve to enhance prospects for full debt recovery.

The Group will when necessary refinance existing facilities at maturity but will classify the loan according to its risk profile:

- Restructures: These loans will be extended on current market terms
- Distressed restructures: The term for these loans may not fully meet current market terms and as a result will typically be classed as forborne.

Forbearance

The forbearance requests the Group receives are principally attributable to:

- Customers suffering temporary cash flow problems that impact the ability to service payments under existing terms. Such problems may be due to loss of tenants, void costs or the costs of securing new tenants such as refurbishments or the provision of rent free incentives.
- Breaches of documented loan to value, interest cover ratio or debt service cover ratio covenants caused by a fall in property values, the loss of income or increased repayments due to interest rate rises or scheduled increases in capital repayments.
- Inability to fulfil the obligation to fully repay at contractual maturity.

Watchlist procedures are used to identify high risk cases and those that are a potential cause for concern, in order that risk mitigating action may be initiated at the earliest opportunity. Renewals and review frequencies are more intense for those borrowers perceived to be of higher risk.

The Group's standard policy and approach to considering forbearance requests is contained in the Arrears Management Policy and the Commercial Lending Credit Policy. Implementation is controlled through the governance and control framework, which includes early warning and watchlist procedures for managing and monitoring the performance of these customers.

All forbearance requests are assessed and approved by the independent credit team in the Risk Management Division. Forbearance to address short term cash flow difficulties will typically be through the provision of a temporary amendment to the payment profile to align repayments with the secure income stream. In such cases there would be no element of debt or interest forgiveness and the Group would have to be satisfied with the ability to maintain payments and fully repay over time.

Forbearance to address covenant breaches would normally entail either a temporary or permanent waiver or amendment of the affected covenant. Each case would be considered on its own merits and the Group's response will depend upon the risk profile of the transaction.

The provision of extended facilities on maturity does not always represent forbearance. However, despite the exit position faced often looking far less attractive than that originally envisaged, the Group will still seek to support customers by providing refinancing over extended terms where the customer's ability to continue to service the debt and improve the risk profile over time can be evidenced.

The permanent waiver of either interest or capital or debt for equity swaps will only be considered in the most exceptional circumstances and always in relation to cases which have been reclassified as impaired.

Loans are no longer classified as forborne once a satisfactory track record has been established and the facility no longer requires more intensive monitoring under watchlist procedures.

Concession events

The following events are treated as concession events:

- Reduction in interest rate or principal due
- Extension of maturity date
- Weakening of security
- Adjustment/non-enforcement of covenants
- Equity interest in the borrower

Cases attracting a concession event are classified as forborne when their underlying credit risk differs from that of a performing loan and the terms extended exceed typical market standards.

Nationwide uses the watchlist to identify those cases with different credit risks characteristics and an LTV threshold to reflect prevailing market terms.

The table below provides details of lending subject to forbearance at the reporting date:

	2013	
	£m	*%*
Covenant breach	**292**	**15**
Extension at maturity	**332**	**17**
Revised repayment profile	**48**	**3**
Multiple forbearance events	**800**	**41**
Other	**463**	**24**
	1,935	**100**

Those loans restructured at maturity and subject to forbearance will typically include a contractual capital amortisation profile or a full cash sweep of surplus rental income to pay down the debt after permitted deductions for asset management fees and irrecoverable property costs. As long as contractual repayments are maintained these are no longer impaired, if applicable, but will retain a forbearance classification until no longer subject to special monitoring procedures. Lending subject to forbearance carries a credit impairment provision of £378 million.

During the year ended 4 April 2013 the policies and procedures relating to forbearance were enhanced to reflect evolving guidance. As a result of this, the table above is not directly comparable with that reported in the previous year.

Other operations; Treasury corporate loan forbearance

One of the Group's subsidiaries Cromarty CLO Ltd (Cromarty) has a portfolio of loans to companies. Although the terms of the interest payments of the Group's loan to Cromarty are aggregated so that the Group does not have a forbearance position, Cromarty does agree repayment terms for its borrowers that are within the definition of forbearance.

Forbearance requests made by Cromarty's borrowers that cannot demonstrate they have robust business models, material market shares and adequate cash flows tend to take the form of balance sheet restructures. Balance sheet restructures are often led by lenders and the terms attempt to balance the need to relieve companies of unsustainable debt burdens and to maximise returns for lenders. Restructures often result in principal reductions in debt outstanding, reduced margins on cash-paying debt or the amendment of cash-paying debt to payment-in-kind (PIK) debt. Other types of forbearance are detailed below.

As of 4 April 2013 fourteen borrowers in the Cromarty loan portfolio would be classed as in forbearance because at some point the borrowers have gone through a balance sheet restructure, or other types of forbearance such as amend and extend (A&E) request, payment default or a covenant breach. Of the £43 million of loans to these borrowers £28 million has gone through a balance sheet restructure, £9 million has completed an A&E request.

In the year to 4 April 2013 six borrowers in the Cromarty loan portfolio entered forbearance status. These loans have an outstanding balance of £16 million and impairment provisions of £2 million were raised against these loans.

In addition, loans and advances to customers include a revolving loan facility of £83 million which has been re-categorised as under forbearance following management review and the decision to extend the loan facility. The loan has been assessed for impairment and, as there has been no trigger event and no deterioration in the underlying securities, no impairment provision is required as at 4 April 2013.

Performance

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

2013	**Commercial**		**Other operations**	
	£m	*%*	*£m*	*%*
Not impaired:				
Neither past due nor impaired	**16,557**	**83**	**397**	**91**
Past due up to 3 months but not impaired	**644**	**3**	**6**	**1**
Impaired	**2,715**	**14**	**33**	**8**
	19,916	**100**	**436**	**100**

2012	**Commercial**		**Other operations**	
	£m	*%*	*£m*	*%*
Not impaired:				
Neither past due nor impaired	19,081	89	447	91
Past due up to 3 months but not impaired	669	3	4	1
Impaired	1,758	8	42	8
	21,508	100	493	100

2011	**Commercial**		**Other operations**	
	£m	*%*	*£m*	*%*
Not impaired:				
Neither past due nor impaired	20,212	92	436	89
Past due up to 3 months but not impaired	391	2	4	1
Impaired	1,420	6	52	10
	22,023	100	492	100

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

Loans in the analysis above which are not impaired have collective impairment allowances set aside to cover credit losses. The commercial mortgage acquired through the acquisitions of the Derbyshire, Cheshire and Dunfermline building societies are assessed for impairment requirements on the same basis as the originated commercial book.

The £33 million (2012: £42 million, 2011: £52 million) of impaired balances in other operations includes £27 million (2012: £30 million, 2011: £41 million) relating to a European commercial loan portfolio and £6 million (2012: £11 million, 2011: £11 million) relating to the unsecured student loan portfolio.

Impaired commercial and other operations assets are further analysed as follows:

2013	**Commercial**		**Other operations**	
	£m	*%*	*£m*	*%*
Impaired status:				
Past due 0 to 3 months	**1,581**	**58**	**-**	**-**
Past due 3 to 6 months	**218**	**8**	**1**	**3**
Past due 6 to 12 months	**295**	**11**	**2**	**6**
Past due over 12 months	**620**	**23**	**30**	**91**
Possessions	**1**	**-**	**-**	**-**
	2,715	**100**	**33**	**100**

2012	**Commercial**		**Other operations**	
	£m	*%*	*£m*	*%*
Impaired status:				
Past due 0 to 3 months	836	47	-	-
Past due 3 to 6 months	139	8	1	2
Past due 6 to 12 months	295	17	2	5
Past due over 12 months	487	28	39	93
Possessions	1	-	-	-
	1,758	100	42	100

2011	**Commercial**		**Other operations**	
	£m	*%*	*£m*	*%*
Impaired status:				
Past due 0 to 3 months	695	49	-	-
Past due 3 to 6 months	111	8	4	8
Past due 6 to 12 months	235	16	8	15
Past due over 12 months	378	27	40	77
Possessions	1	-	-	-
	1,420	100	52	100

Commercial assets totalling £2,629 million (2012: £1,450 million, 2011: £1,152 million) have individual provisions against them.

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

Commercial lending: collateral

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

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

The table below quantifies the value of fixed charges held against non-performing or impaired assets.

Collateral held against past due or impaired commercial lending	**2013**		**2012**		**2011**	
	£m	*%*	*£m*	*%*	*£m*	*%*
Past due but not impaired	**623**	**97**	631	94	363	93
Impaired	**1,743**	**64**	1,157	66	1,050	74
	2,366	**70**	1,788	74	1,413	78

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

The indexed value of the collateral is based on the most recent formal valuation. The index used is the Investment Property Databank (IPD) monthly index for the relevant property sector. Nationwide reserves the right to request a revaluation of any property currently charged in support of facilities advanced or upon an act of default. Whilst a revaluation is not automatically obtained, the merits of obtaining a revaluation are considered at each facility review and whenever a report is submitted to Risk Management Division.

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

A borrower level analysis by loan to value ratio of the Group's Property Finance portfolio is provided below. Housing, Project Finance data and one commercial loan secured on floating charges are excluded from this analysis.

The LTV ratio is calculated using the on balance sheet carrying amount of the loan divided by the indexed value of the most recent independent external collateral valuation. The IPD Monthly Index is used.

LTV Band	**2013**		**2012**		**2011**	
	£m	*%*	*£m*	*%*	*£m*	*%*
<75%	**4,506**	**44**	4,925	43	5,025	41
75% - 90%	**936**	**9**	1,475	13	1,843	15
90% - 100%	**907**	**9**	1,155	10	1,238	10
100% - 125%	**1,823**	**18**	2,471	21	2,949	24
>125%	**2,020**	**20**	1,554	13	1,227	10
	10,192	**100**	11,580	100	12,282	100

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

	2013	2012	2011
Negative equity on commercial lending	*£m*	*£m*	*£m*
Past due but not impaired	**21**	38	28
Impaired	**972**	600	369
Possessions	**1**	-	1
	994	638	398

Movements in impaired loans by credit risk segment

The table below reconciles the movements throughout the year of all loans classified as impaired. The balance shown represents the entire financial asset rather than just the overdue elements.

	Prime	**Specialist**	**Unsecured**	**Commercial**	**Other**	**Total**
	£m	*£m*	*£m*	*£m*	*£m*	*£m*
At 5 April 2012	567	784	60	1,758	42	3,211
Classified as impaired during the year	**519**	**698**	**113**	**1,333**	**3**	**2,666**
Transferred from impaired to unimpaired	**(456)**	**(548)**	**(20)**	**(42)**	**(5)**	**(1,071)**
Amounts written off	**(60)**	**(193)**	**(82)**	**(211)**	**(3)**	**(549)**
Repayments	**(6)**	**(15)**	**(6)**	**(123)**	**(4)**	**(154)**
At 4 April 2013	**564**	**726**	**65**	**2,715**	**33**	**4,103**

Loans that were classified as impaired at any point during the year and loans that have transferred into or out of impaired are based on the relevant status at each month end, when compared to the previous month end. Amounts written off reflect where the loan has been removed from the books, for example a residential property repossessed and sold. Repayments reflect payments made by the customer, reducing the outstanding balance.

There were no acquisitions during the year ended 4 April 2013, but all prior acquisitions are categorised in the same way as originated loans in the analysis above.

The large amount of write offs within specialist loans reflects the increased use of auctions in the year ended 4 April 2013 to sell possessions that have been held for longer than 12 months.

Unsecured accounts are written off when all avenues for recovering debt using internal resource have been exhausted or when accounts have reached a significant time in arrears.

The large number of commercial loans classified as impaired during the year reflects the continued recessionary market conditions which have been summarised in the Commercial credit risks section.

Treasury credit risks

Treasury assets

Treasury assets include cash, loans and advances to banks and investment securities available for sale. Treasury assets are categorised between core liquidity and non-core portfolios to better reflect the management of the portfolios and bring the analysis in line with PRA definitions in BIPRU 12.

Core liquidity comprises cash and highly rated debt securities issued by governments or multi-lateral development banks.

The non-core portfolio comprises available for sale assets held for investment purposes, plus balances in clearing accounts. Analysis of each of these portfolios by credit rating and geographical location of the issuers is set out in the table below.

2013	**£bn**	**AAA**	**AA**	**A**	**Other**	**UK**	**US**	**Europe**	**Other**
		%	%	%	%	%	%	%	%
Cash	**7.9**	**100**	**-**	**-**	**-**	**100**	**-**	**-**	**-**
Gilts	**5.6**	**100**	**-**	**-**	**-**	**100**	**-**	**-**	**-**
Non-domestic government bonds	**2.3**	**71**	**29**	**-**	**-**	**-**	**29**	**71**	**-**
Supranational bonds	**1.0**	**100**	**-**	**-**	**-**	**-**	**5**	**93**	**2**
Domestic government bonds	**0.1**	**100**	**-**	**-**	**-**	**100**	**-**	**-**	**-**
Core liquidity portfolio total	**16.9**	**96**	**4**	**-**	**-**	**81**	**4**	**15**	**-**
Loans and advances to banks	**2.5**	**13**	**23**	**64**	**-**	**46**	**18**	**22**	**14**
Residential mortgaged backed securities (RMBS)	**1.6**	**25**	**23**	**31**	**21**	**35**	**5**	**56**	**4**
Commercial mortgage backed securities (CMBS)	**0.4**	**-**	**29**	**39**	**32**	**42**	**19**	**39**	**-**
Covered bonds	**0.6**	**11**	**28**	**34**	**27**	**-**	**5**	**92**	**3**
Collateralised loan obligations	**0.7**	**17**	**79**	**4**	**-**	**31**	**69**	**-**	**-**
Financial institution bonds	**0.3**	**-**	**-**	**58**	**42**	**30**	**16**	**43**	**11**
US student loans	**0.5**	**22**	**52**	**14**	**12**	**-**	**100**	**-**	**-**
Other	**0.3**	**19**	**24**	**16**	**41**	**24**	**29**	**42**	**5**
Non-core portfolio total	**6.9**	**16**	**31**	**40**	**13**	**33**	**26**	**35**	**6**
Total	**23.8**	**73**	**12**	**12**	**3**	**66**	**11**	**21**	**2**

2012	**£bn**	**AAA**	**AA**	**A**	**Other**	**UK**	**US**	**Europe**	**Other**
		%	%	%	%	%	%	%	%
Cash	8.1	100	-	-	-	100	-	-	-
Gilts	12.8	100	-	-	-	100	-	-	-
Non-domestic government bonds	2.4	54	46	-	-	-	46	54	-
Supranational bonds	1.4	100	-	-	-	9	4	86	1
Domestic government bonds	0.1	100	-	-	-	100	-	-	-
Core liquidity portfolio total	24.8	96	4	-	-	85	5	10	-
Loans and advances to banks	2.9	-	23	77	-	31	17	17	35
Residential mortgaged backed securities (RMBS)	2.1	41	27	23	9	45	4	41	10
Commercial mortgage backed securities (CMBS)	0.5	-	24	58	18	67	-	33	-
Covered bonds	0.9	54	23	12	11	28	3	63	6
Collateralised loan obligations	0.6	6	89	5	-	31	69	-	-
Financial institution bonds	1.4	-	9	64	27	20	14	50	16
US student loans	0.7	40	28	22	10	-	100	-	-
Other	0.4	32	20	18	30	25	61	14	-
Non-core portfolio total	9.5	19	27	45	9	32	22	30	16
Total	34.3	74	10	13	3	70	10	16	4

2011	£bn	AAA	AA	A	Other	UK	US	Europe	Other
		%	%	%	%	%	%	%	%
Cash	6.1	100	-	-	-	100	-	-	-
Gilts	8.6	100	-	-	-	100	-	-	-
Non-domestic government bonds	2.2	100	-	-	-	-	40	60	-
Supranational bonds	1.7	100	-	-	-	-	-	100	-
Domestic government bonds	0.1	100	-	-	-	100	-	-	-
Core liquidity portfolio total	18.7	100	-	-	-	79	5	16	-
Loans and advances to banks	4.2	-	38	62	-	73	-	15	12
Residential mortgaged backed securities (RMBS)	2.8	75	15	5	5	49	4	43	4
Commercial mortgage backed securities (CMBS)	0.6	39	23	16	22	66	14	20	-
Covered bonds	0.7	67	18	8	7	-	4	88	8
Collateralised loan obligations	0.6	6	82	12	-	26	74	-	-
Financial institution bonds	3.0	11	18	51	20	20	11	56	13
US student loans	0.7	68	6	17	9	-	100	-	-
Other	0.6	43	14	13	30	68	28	3	1
Non-core portfolio total	13.2	31	25	35	9	46	14	32	8
Total	31.9	71	11	15	3	65	9	23	3

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

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

In assessing impairment, the Group evaluates among other factors, the normal volatility in valuation, evidence of deterioration in the financial health of the investee, industry and sector performance and operational and financing cash flows. An impairment loss of £2 million (2012: £31 million, 2011: £66 million) net of write backs has been recognised in the income statement in respect of the non-core portfolios.

Collateral held as security for treasury assets is determined by the nature of the instrument. Core liquidity and non-core portfolios are generally unsecured with the exception of reverse repos, asset backed securities and similar instruments, which are secured by pools of financial assets. Within loans and advances is a reverse repo of £0.1 billion (2012: £0.1 billion, 2011: £nil) which is secured by gilts and cash pledged of £1.6 billion (2012: £2.3 billion, 2011: £1.9 billion) to Credit Support Annex (CSA) counterparties in relation to derivative liabilities to mitigate their credit exposure to Nationwide Group.

Derivative financial instruments

The fair value of derivative assets at 4 April 2013 was £4.2 billion (2012: £4.2 billion, 2011: £4.0 billion). Additional information on these assets is set out in note 16. The International Swaps and Derivatives Association (ISDA) Master Agreement is Nationwide's preferred agreement for documenting derivative activity. It is common for a CSA to be executed in conjunction with the ISDA Master Agreement. Under a CSA, cash and securities collateral is passed between parties to mitigate the market contingent counterparty risk inherent in the outstanding positions. Collateral is paid or received on a regular basis (typically daily or weekly) to mitigate the mark to market exposures on derivatives.

Nationwide's CSAs are two way agreements where both parties post collateral dependent on the exposure of the derivative. The only exception is within the Nationwide Covered Bond LLP where one way agreements have been entered into in favour of the Nationwide Covered Bond LLP. These CSAs are also subject to contingent rating triggers.

Where cash collateral is received to mitigate the risk inherent in amounts due to the Group, it is included as a liability within deposits from banks. Where cash collateral is given to mitigate the risk inherent in amounts due from the Group, it is included as an asset in loans and advances to banks. Where securities collateral is received the securities are not recognised in the accounts as the Group does not obtain the risks and rewards of the securities. Where securities collateral is given, the securities have not been derecognised as the Group has retained substantially all the risks and rewards of ownership.

Netting arrangements do not generally result in an offset of balance sheet assets and liabilities, as transactions are usually settled on a gross basis. The Group's legal documentation for derivative transactions grants legal rights of set off for those transactions. Accordingly, the credit risk associated with such contracts is reduced to the extent that negative mark to market values on derivatives will offset positive mark to market values on derivatives in the calculation of credit risk, subject to an absolute exposure of zero.

The following table shows the exposure to counterparty credit risk for derivative contracts after netting benefits and collateral:

2013	**AA**	**A**	**Total**
	£bn	*£bn*	*£bn*
Gross positive fair value of contracts	**0.5**	**3.7**	**4.2**
Netting benefits	**(0.3)**	**(1.9)**	**(2.2)**
Net current credit exposure	**0.2**	**1.8**	**2.0**
Collateral held	**(0.1)**	**(1.5)**	**(1.6)**
Net derivative credit exposure	**0.1**	**0.3**	**0.4**

2012	**AA**	**A**	**Total**
	£bn	*£bn*	*£bn*
Gross positive fair value of contracts	0.6	3.6	4.2
Netting benefits	(0.3)	(1.7)	(2.0)
Net current credit exposure	0.3	1.9	2.2
Collateral held	-	(1.1)	(1.1)
Net derivative credit exposure	0.3	0.8	1.1

2011	**AA**	**A**	**Total**
	£bn	*£bn*	*£bn*
Gross positive fair value of contracts	1.8	2.2	4.0
Netting benefits	(0.8)	(0.5)	(1.3)
Net current credit exposure	1.0	1.7	2.7
Collateral held	(0.1)	(0.9)	(1.0)
Net derivative credit exposure	0.9	0.8	1.7

Collateral held consists primarily of cash with £0.1 billion held in non-domestic government securities.

Collateral on certain derivative assets with a fair value of £0.4 billion (2012: £1.1 billion, 2011: £1.7 billion) is only triggered when the counterparty rating falls to a specified rating level. At 4 April 2013 the trigger event has not occurred and these assets are uncollateralised as a consequence. Nationwide's exposure to such counterparties is to AA or A rated banks.

A credit and debit valuation adjustment policy is applied to derivative exposures. A credit valuation adjustment (CVA) reflects counterparty credit and a debit valuation adjustment (DVA) reflects Nationwide's own credit quality on the derivative fair value. With the exception of a small number of legacy positions, all derivative counterparty positions are subject to CSA agreements.

The policy states that where the net exposure is an asset a credit valuation adjustment is applied and where the net exposure is a liability a debit valuation adjustment is applied. The CVA/DVA calculation uses readily observable and verifiable market data in the form of individual counterparty credit default swap spreads as a proxy for the probability of default. A CVA of £22 million and a DVA of £21 million were recorded in the income statement to reflect the movement in counterparty credit risk on fair valued derivative assets and own credit risk on fair valued derivative liabilities during the year.

35 Financial risk

The main categories of financial risks faced by the Group include:

Risk category	Definition
Liquidity and funding risk	Liquidity risk is the risk that the Group is unable to maintain all of the following capabilities: • to meet its financial obligations as they fall due (including any unexpected adverse cash flow); • to smooth out the effect of maturity mismatches; or • to maintain public confidence. Funding risk is the risk associated with the impact on the Group's cash flow from higher funding costs or the inability to access funding markets.
Market risk	The risk that the value of, or net income arising from, the Group's assets and liabilities changes as a result of changes to interest rates, exchange rates or equity prices.

Financial risk is managed within a framework of approved assets, currencies and capital instruments supported by detailed limits set by either the Board or ALCO under its delegated mandate. The Nationwide Board retains responsibility for approval of derivative classes that may be used for market risk management purposes, restrictions over the use of such derivative classes (within the limitations imposed under the Building Societies Act, Section 9a) and for asset classes that may be classified as liquidity.

Strategy in using financial instruments

The Group accepts deposits from customers at fixed, floating and variable interest rates for various periods and seeks to earn an interest margin by investing these funds in high quality assets – predominantly mortgages. The Group uses derivative instruments to manage various aspects of risk which arise from this core activity. However, in doing so it complies with the Building Societies Act 1986 which limits the use of derivatives to the mitigation of consequences arising from changes in interest rates, exchange rates or other factors defined by the Act.

The principal risks to which the Group is exposed through its use of financial instruments are interest rate, foreign exchange, liquidity and funding and credit risk. The table below highlights the links between these risks and the balance sheet.

		Non-traded risk sensitivity				
	2013 £m	**Liquidity risk**	**Interest rate risk**	**Foreign exchange risk**	**Credit risk**	**Equity risk**
Assets						
Cash	**7,886**				✓	
Loans and advances to banks	**2,522**		✓	✓	✓	
Loans and advances to customers	**159,587**		✓	✓	✓	
Derivative financial instruments (assets)	**4,212**		✓	✓	✓	✓
Investment securities – available for sale	**13,421**	✓	✓	✓	✓	
Liabilities						
Shares (customer deposits)	**125,574**	✓	✓	✓		
Deposits from banks	**3,230**	✓	✓	✓		
Other deposits (including PEB deposits)	**6,747**	✓	✓			✓
Due to customers (including offshore deposits)	**5,960**	✓	✓	✓		
Debt securities in issue	**33,429**	✓	✓	✓		
Derivative financial instruments (liabilities)	**3,885**		✓	✓		✓
Subordinated liabilities	**2,540**	✓	✓	✓		
Subscribed capital (PIBs)	**1,304**	✓	✓	✓		
Retirement benefit obligations	**354**		✓			✓

Loans and advances to banks and customers

Loans and advances to banks tend to be short dated and fixed rate without embedded optionality. The primary risk on assets within loans and advances to customers is the credit risk of the borrower. Many of the Group's mortgage products are fixed rate and have embedded option features such as the option to complete or the option to prepay.

Investment securities – available for sale

These include bonds held by the Group Treasury for liquidity and investment purposes.

Financial liabilities not designated at fair value (includes all liabilities noted above excluding PEB deposits and derivative financial instruments)

This includes all other liabilities subject to market risk. The primary risk relating to these liabilities is interest rate risk. Some Group savings products also contain embedded options to access balances before maturity.

Financial liabilities designated at fair value

The Group's only liabilities designated at fair value are the protected equity bonds (PEBs). An accounting mismatch would occur if the debt was accounted for at amortised cost because the derivatives which economically hedge the market risk on the PEBs would be accounted for at fair value with changes recognised in the income statement.

Derivative financial instruments (assets and liabilities)

In line with Section 9A of the Building Societies Act, Nationwide Group only uses derivatives to reduce exposure to market risks, although the application of accounting rules can create volatility in the income statement in a particular financial year.

The principal derivatives used in balance sheet risk management are interest rate swaps, forward rate agreements, interest rate options, cross-currency swaps, interest rate futures, foreign exchange contracts, and equity index swaps. Derivatives are used to hedge balance sheet and income exposures arising, inter alia, from fixed rate mortgage lending, fixed rate savings products and funding and investment activities in foreign currencies or involving fixed rate instruments or instruments with embedded options. The Group has not used derivatives to mitigate credit risks during the year. Group risk exposures are recorded on the Group's information systems and monitored accordingly.

All exchange-traded instruments are subject to cash requirements under the standard margin arrangements applied by the individual exchanges. Such instruments are not subject to significant credit risk. Credit exposures arising on derivative contracts with all main counterparties are collateralised (e.g. with cash deposits) to mitigate credit exposures. All Group derivatives activity is contracted with OECD financial institutions.

Liquidity and funding risk

Maturity of liquidity risk assets and liabilities

The table below analyses the carrying value of financial assets and financial liabilities into relevant maturity groupings based on the remaining period to the contractual maturity date. In practice, customer deposits will be repaid later than on the earliest date on which repayment can be required. Likewise, in practice, customer assets may be repaid ahead of their contractual maturity. As such, Nationwide uses past performance of each asset and liability class along with expert judgement to forecast the likely cash flow requirements of the Group.

At 4 April 2013 Residual maturity	**Repayable on demand**	**Up to 3 months**	**3 – 12 months**	**1 – 5 years**	**More than 5 years**	**Total**
	£m	*£m*	*£m*	*£m*	*£m*	*£m*
Assets						
Cash	**7,886**	**-**	**-**	**-**	**-**	**7,886**
Loans and advances to banks	**2,097**	**92**	**-**	**148**	**185**	**2,522**
Investment securities – available for sale	**-**	**30**	**455**	**2,533**	**10,403**	**13,421**
Loans and advances to customers	**697**	**3,334**	**5,721**	**26,671**	**123,164**	**159,587**
Derivative financial instruments	**-**	**169**	**491**	**1,585**	**1,967**	**4,212**
Other financial assets	**-**	**20**	**59**	**537**	**292**	**908**
Total financial assets	**10,680**	**3,645**	**6,726**	**31,474**	**136,011**	**188,536**
Liabilities						
Shares	**77,103**	**8,765**	**20,246**	**17,877**	**1,583**	**125,574**
Deposit from banks	**1,688**	**248**	**250**	**1,001**	**43**	**3,230**
Of which repo	*-*	*17*	*190*	*1,000*	*-*	*1,207*
Other deposits	**362**	**2,050**	**1,345**	**2,990**	**-**	**6,747**
Due to customers	**3,812**	**846**	**1,183**	**119**	**-**	**5,960**
Secured funding – ABS and covered bonds	**-**	**153**	**2,118**	**12,424**	**6,177**	**20,872**
Senior unsecured	**-**	**4,943**	**3,217**	**2,722**	**1,675**	**12,557**
Derivative financial instruments	**-**	**57**	**144**	**1,124**	**2,560**	**3,885**
Other financial liabilities	**-**	**4**	**21**	**125**	**-**	**150**
Subordinated liabilities	**-**	**130**	**169**	**1,536**	**705**	**2,540**
Subscribed capital	**-**	**3**	**-**	**352**	**949**	**1,304**
Total financial liabilities	**82,965**	**17,199**	**28,693**	**40,270**	**13,692**	**182,819**
Net liquidity gap	**(72,285)**	**(13,554)**	**(21,967)**	**(8,796)**	**122,319**	**5,717**

At 4 April 2012 Residual maturity	**Repayable on demand**	**Up to 3 months**	**3 – 12 months**	**1 – 5 years**	**More than 5 years**	**Total**
	£m	*£m*	*£m*	*£m*	*£m*	*£m*
Assets						
Cash	8,126	-	-	-	-	8,126
Loans and advances to banks	2,197	377	-	148	192	2,914
Investment securities – available for sale	-	144	1,756	6,261	15,164	23,325
Loans and advances to customers	835	1,775	4,750	26,926	119,883	154,169
Derivative financial instruments	-	164	650	1,735	1,627	4,176
Other financial assets	-	70	307	555	427	1,359
Total financial assets	11,158	2,530	7,463	35,625	137,293	194,069
Liabilities						
Shares	67,469	7,614	28,794	21,267	473	125,617
Deposit from banks	836	314	53	2,145	22	3,370
Of which repo	-	-	-	*1,192*	*953*	*2,145*
Other deposits	356	2,582	1,049	2,260	652	6,899
Due to customers	3,791	467	1,212	363	-	5,833
Secured funding – ABS and covered bonds	-	248	3,227	13,395	6,429	23,299
Senior unsecured		8,010	2,920	2,747	1,878	15,555
Derivative financial instruments	-	116	288	1,294	2,589	4,287
Other financial liabilities	-	2	36	240	-	278
Subordinated liabilities	-	-	-	438	1,206	1,644
Subscribed capital	-	-	349	329	947	1,625
Total financial liabilities	72,452	19,353	37,928	44,478	14,196	188,407
Net liquidity gap	(61,294)	(16,823)	(30,465)	(8,853)	123,097	5,662

At 4 April 2011 Residual maturity	**Repayable on demand**	**Up to 3 months**	**3 – 12 months**	**1 – 5 years**	**More than 5 years**	**Total**
	£m	*£m*	*£m*	*£m*	*£m*	*£m*
Assets						
Cash	6,130	-	-	-	-	6,130
Loans and advances to banks	2,424	1,570	-	-	187	4,181
Investment securities – available for sale	34	445	1,808	8,217	11,036	21,540
Loans and advances to customers	695	2,104	5,075	25,407	116,136	149,417
Derivative financial instruments	-	90	723	2,149	999	3,961
Other financial assets	-	25	134	1,089	489	1,737
Total financial assets	9,283	4,234	7,740	36,862	128,847	186,966
Liabilities						
Shares	67,435	7,284	20,091	27,361	381	122,552
Deposits from banks	1,048	410	84	1,204	-	2,746
Of which repo	-	*6*	-	*1,243*	-	*1,249*
Other deposits	300	2,328	1,034	1,223	924	5,809
Due to customers	4,744	391	459	168	-	5,762
Secured funding – ABS and covered bonds	1	161	2,056	11,074	4,774	18,066
Senior unsecured	-	7,101	6,163	4,750	1,728	19,742
Derivative financial instruments	-	67	282	1,703	1,182	3,234
Other financial liabilities	-	(1)	(6)	49	(23)	19
Subordinated liabilities	-	-	381	763	829	1,973
Subscribed capital	-	-	-	229	1,281	1,510
Total financial liabilities	73,528	17,741	30,544	48,524	11,076	181,413
Net liquidity gap	(64,245)	(13,507)	(22,804)	(11,662)	117,771	5,553

Liquid assets include cash, loans and advances to banks and available for sale investment securities. Other financial assets and liabilities include the fair value adjustments for portfolio hedged risk and investments in equity shares.

The analysis above excludes certain other assets, including property, plant and equipment, intangible assets, investment property, other assets, deferred tax assets and accrued income and expenses prepaid, and certain other liabilities including provisions for liabilities and charges, accruals and deferred income, current tax liabilities, other liabilities and retirement benefit obligations.

The following is an analysis of gross undiscounted contractual cash flows payable under financial liabilities.

Gross contractual cash flows 2013	**Repayable on demand**	**Up to 3 months**	**3 – 12 months**	**1 – 5 years**	**More than 5 years**	**Total**
	£m	*£m*	*£m*	*£m*	*£m*	*£m*
Shares	**77,103**	**8,981**	**20,672**	**18,603**	**1,647**	**127,006**
Deposits from banks	**1,688**	**255**	**268**	**1,045**	**45**	**3,301**
Other deposits	**362**	**2,077**	**1,400**	**3,110**	**-**	**6,949**
Due to customers	**3,812**	**855**	**1,194**	**124**	**-**	**5,985**
Secured funding – ABS and covered bonds	**-**	**62**	**2,631**	**13,302**	**6,745**	**22,740**
Senior unsecured	**-**	**4,929**	**3,408**	**3,238**	**1,949**	**13,524**
Derivative financial instruments	**-**	**257**	**675**	**2,038**	**704**	**3,674**
Other financial liabilities	**-**	**5**	**23**	**130**	**-**	**158**
Subordinated liabilities	**-**	**4**	**273**	**2,075**	**764**	**3,116**
Subscribed capital	**-**	**10**	**60**	**563**	**1,106**	**1,739**
Total financial liabilities	**82,965**	**17,435**	**30,604**	**44,228**	**12,960**	**188,192**
Off balance sheet commitments	**-**	**4,842**	**351**	**1,227**	**739**	**7,159**

Gross contractual cash flows 2012	**Repayable on demand**	**Up to 3 months**	**3 – 12 months**	**1 – 5 years**	**More than 5 years**	**Total**
	£m	*£m*	*£m*	*£m*	*£m*	*£m*
Shares	67,469	7,925	29,412	22,250	495	127,551
Deposits from banks	836	332	104	2,281	24	3,577
Other deposits	356	2,623	1,129	2,481	703	7,292
Due to customers	3,791	481	1,235	386	-	5,893
Secured funding – ABS and covered bonds	-	65	2,514	15,033	7,366	24,978
Senior unsecured	-	7,948	3,924	5,012	1,870	18,754
Derivative financial instruments	-	395	977	2,575	751	4,698
Other financial liabilities	-	4	42	255	-	301
Subordinated liabilities	-	4	290	841	954	2,089
Subscribed capital	-	10	431	588	1,143	2,172
Total financial liabilities	72,452	19,787	40,058	51,702	13,306	197,305
Off balance sheet commitments	-	3,213	371	1,084	622	5,290

Gross contractual cash flows 2011	**Repayable on demand**	**Up to 3 months**	**3 – 12 months**	**1 – 5 years**	**More than 5 years**	**Total**
	£m	*£m*	*£m*	*£m*	*£m*	*£m*
Shares	67,435	7,552	20,680	28,510	397	124,574
Deposits from banks	1,048	420	110	1,270	-	2,848
Other deposits	300	2,358	1,089	1,392	988	6,127
Due to customers	4,744	397	467	177	-	5,785
Secured funding – ABS and covered bonds	1	285	2,404	12,208	5,102	20,000
Senior unsecured	-	7,212	6,360	5,201	1,847	20,620
Derivative financial instruments	-	536	1,048	1,766	334	3,684
Other financial liabilities	-	(1)	(6)	49	(24)	18
Subordinated liabilities	-	6	475	1,084	1,064	2,629
Subscribed capital	-	6	81	835	1,339	2,261
Total financial liabilities	73,528	18,771	32,708	52,492	11,047	188,546
Off balance sheet commitments	-	3,563	341	1,140	792	5,836

The analysis of gross contractual cash flows above differs from the analysis of residual maturity due to the inclusion of interest accrued at current rates for the average period until maturity on the amounts outstanding at the balance sheet date.

Market risk

Market risk management

Market risk only arises in the banking book as Nationwide does not have a trading book. The principal financial risks that affect the Group are listed below together with the types of risk reporting measures used:

Risk type	**Reporting Measure**
Interest Rate Risk	Sensitivity/ Value at Risk (VaR)
Basis Risk	Earnings at Risk
Spread Risk	Sensitivity/ VaR
Foreign Exchange Risks	VaR
Product Option Risks	Sensitivity

Exposure is managed using a combination of:

- Sensitivity measures (such as Net Interest Income, PV01 and PV200),
- VaR measures and recognising the limitations of VaR,
- Stress analysis.

Sensitivity analysis (PV01 sensitivity)

The sensitivity analysis used to assess the change in value of the Group’s current net worth against a one basis point (0.01%) parallel shift in interest rates is known as PV01 sensitivity. As is the case with VaR (see below), this analysis is done on a daily basis, separately for each currency (but with the main risk arising from sterling exposures) and in aggregate.

Value at risk (VaR)

VaR is a technique that estimates the potential losses that could occur on risk positions as a result of future movements in market rates and prices over a specified time horizon and to a given level of statistical confidence. In its day to day monitoring Nationwide uses a 99% confidence level and assumes the position remains static for 10 days.

VaR is based predominantly on historical data. The model derives plausible future scenarios from past series of recorded market rates and prices, taking into account inter-relationships between different markets and rates such as interest rates and foreign exchange rates.

The VaR model used by Nationwide incorporates underlying risk factors based on interest rate and foreign exchange volatilities and correlations. Potential movements in market prices are calculated by reference to daily market data from the last two years, equally weighted. Exposures against limits are reviewed daily by management. Actual outcomes are monitored periodically to test the validity of the assumptions and factors used in the VaR calculation.

Although a valuable guide to risk, VaR needs to be viewed in the context of the following limitations:

- VaR models often under predict the likelihood of extreme events and over-predict the benefits of diversification in those extreme events.

- The use of a 99% confidence level, by definition, does not take account of changes in value that might occur beyond this level of confidence.

- The VaR model uses historical data to predict future events. In periods of heightened volatility the model is likely to under predict market risks and in periods of low volatility it is likely to over predict market risks.

- VaR is calculated on the basis of exposures outstanding at the close of business and therefore does not necessarily reflect intra-day exposures.

Stress analysis

In recognition of its limitations VaR is augmented with stress testing to evaluate the potential impact of more extreme, though plausible, events or movements in a set of financial variables.

Standard PV01 sensitivity analysis for interest rate risk exposures is supplemented by the production of stressed sensitivity measures. A much more severe 200 basis point (2.0%) parallel shift in interest rates is calculated in a similar manner to PV01, this sensitivity analysis is known as PV200. PV200 numbers are generated and monitored daily.

Each quarter, the residual interest rate risk and foreign exchange positions are also subjected to a range of stressed scenarios designed to highlight potential losses in extreme situations. The results of these stresses are presented to the Balance Sheet Risk Forum to aid insight into the accuracy of the VaR numbers and to reveal scenarios in which the Group may make losses on its residual interest rate and foreign currency positions.

A range of metrics are regularly produced focusing on the crystallisation of product option risks under stressed events. Group net interest income projections are also calculated under a range of stressed interest rate scenarios.

Interest rate risk

The main market risk faced by the Group is interest rate risk which primarily arises from Nationwide's retail and commercial assets and liabilities, core liquidity holdings, and wholesale funding activities. Interest rate risks relating to retail and commercial products are managed via the use of proxy tickets. For example a number of retail mortgages with similar interest rate risk characteristics are aggregated into a single proxy ticket. These tickets are regularly reconciled to the balance sheet

Interest rate risks generated by these activities are offset against each other, and the remaining net exposure to interest rate risk is managed on a continuous basis, within parameters set by ALCO, using a combination of derivatives and cash instruments (such as loans, deposits and bonds). The information below highlights how tightly managed the Group's exposure is to this risk.

	2013			2012			2011		
	Average	High	Low	Average	High	Low	Average	High	Low
	£m	£m	£m	£m	£m	£m	£m	£m	£m
VaR	**0.8**	**1.8**	**0.1**	0.5	1.4	0.1	0.7	2.4	0.1
Sensitivity analysis (PV01)	**0.0**	**0.1**	**(0.1)**	0.0	0.1	(0.1)	0.0	0.1	(0.1)
Stress testing (PV200: all currencies)	**7.9**	**22.3**	**(16.2)**	6.8	21.0	(7.9)	2.0	13.5	(15.0)

Earnings risk (sensitivity of net interest income (NII))

Earnings risk or net interest income risk is the risk that Nationwide's net interest income is adversely affected by a change in the level of interest rates. The sensitivity of Group net interest margin to changes in interest rate is measured monthly using a dynamic forecasting model and interest rate scenarios, and is calculated for a forward period of 12 months incorporating the impact of prepayment and access options embedded within fixed rate retail products.

The scenarios are based on the projected hypothetical yield curves and the Group's current interest rate risk profile. However, they do not incorporate management actions that would be undertaken to mitigate the effect of interest rate risk.

The table below sets out the effect on future net interest income of rises and falls in rates.

Potential favourable/(adverse) impact on net interest income	2013
	£m
+200 basis points shift	**352**
+100 basis points shift	**173**
-25 basis points shift	**(51)**
-50 basis points shift, floored at 1bp	**(117)**

Key points:

- The interest rate sensitivities set out above are illustrative only and are based on simplified scenarios
- The -50 basis point shift is floored at 1bp to prevent rates from turning negative.
- The reported sensitivity will vary over time due to a number of factors such as market conditions and strategic changes to the balance sheet mix and should not therefore be considered predictive of future performance.

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

Basis risk

Where assets and liabilities reprice at the same time but in line with a different interest rate basis, the Group is exposed to basis risk. For example, where assets reprice with reference to Bank of England base rate but liabilities reprice with reference to 3 month Libor, a basis risk exists. Basis risk is managed using a holistic approach incorporating a projection of balance sheet exposure net of derivatives. An earnings at risk number is calculated over the next year under a stressed rate scenario. Group exposure is limited with mitigating actions being taken by ALCO.

Swap spread risk

Nationwide is required to hold a substantial core liquidity portfolio. These assets are predominantly fixed rate government securities and hence are accompanied by interest rate swaps to hedge the Group against general movements in interest rates. However, there remains a residual risk associated with the possible movements in the spread between sovereign debt yields and swap rates. This 'swap spread risk' reflects that the market value of the swapped core liquidity portfolio can move up and down on a day to day basis. For example the market value falls if the yield on sovereign debt increases more than swap rates, as the market value loss of the sovereign debt is higher than the mark-to-market profit on the swap. The risk is only crystallised if the sovereign debt and associated swap are sold.

These market value movements are monitored carefully, while the risk is controlled via sensitivity and VaR limits. Exposures are monitored daily and reported monthly to ALCO.

Foreign exchange risk

The Group runs very little foreign exchange risk with exposures mainly created by any residual mismatch between wholesale funding issuance and liquidity holdings in euros and dollars. As with interest rate risk, the remaining net exposure is managed on a continuous basis, within parameters set by ALCO, using a combination of currency swaps, foreign exchange spot and forward transactions and, cash instruments (such as loans, deposits and bonds).

Foreign currency exposure is hedged through natural offset on the balance sheet or by using derivatives to reduce currency exposures to acceptable levels. ALCO sets and monitors limits on net currency exposure. The information below highlights how low the remaining exposure to foreign exchange risk is.

	2013			**2012**			**2011**		
	Average	**High**	**Low**	**Average**	**High**	**Low**	**Average**	**High**	**Low**
	£m	*£m*	*£m*	*£m*	*£m*	*£m*	*£m*	*£m*	*£m*
VaR	**0.3**	**0.8**	**0.0**	0.3	0.7	0.0	0.1	0.5	0.0

Product option risks

Potential losses from market risks also arise as a result of customers exercising options embedded in fixed rate products resulting in required changes to hedging. The key product risks are prepayment risk (early redemption or overpayment of fixed rate mortgages), access risk (early withdrawal of fixed rate savings), and attrition risk (higher or lower take up of fixed rate mortgages). They are quantified and assessed from a set of bespoke models that are used to predict customer behaviour in response to changes in interest rates. The forecast cost relating to these scenarios is then monitored. These stressed risk measures are subject to a set of triggers and are reported to the Balance Sheet Risk Forum and ALCO, along with a set of proposed management actions where necessary.

Stressed losses are predicted for each risk by simulating future interest rate paths and calculating the resulting profit or loss for each. This determines a loss distribution from which an extreme percentile is calculated. Regulatory capital requirements are determined to cover these stressed losses during the Individual Capital Assessment (ICA) and these requirements are also recalculated and reported monthly to Capital Management with explanations of any significant movements. These are collated and reported onwards to the Capital and Stress Testing Forum, ALCO and the Executive Risk Committee.

Model performance is back tested through a process where observed interest rates are applied to the same models to generate a model-predicted 'actual' profit or loss. These results are compared to the observed profit or loss to ensure that model accuracy is continually assessed and the potential impact on results is known. These results are then used to inform model development during the annual review process and can result in model parameters being re-estimated where appropriate. A good example of this is the prepayment risk model – the first version of the model was developed in 2007 and little experience of a falling rate environment existed at that time. Therefore, assumptions around the behaviour of mortgage customers in such an environment were considered and built into the model. Following the rate decrease that occurred in 2008/2009 these assumptions were observed to be excessively conservative, the behaviour was better understood and the next model recalibration addressed this.

36 Classification and measurement

The following tables summarise the classification of carrying amounts of the Group's financial assets and liabilities.

2013	Available for sale	Loans and receivables	Fair value through income statement	Liabilities at amortised cost	Total
	£m	*£m*	*£m*	*£m*	*£m*
Financial assets					
Cash	-	7,886	-	-	7,886
Loans and advances to banks	-	2,522	-	-	2,522
Investment securities	13,421	-	-	-	13,421
Derivative financial instruments	-	-	4,212	-	4,212
Fair value adjustment for portfolio hedged risk	-	872	-	-	872
Loans and advances to customers	-	159,587	-	-	159,587
Investments in equity shares	28	-	-	-	28
Other financial assets	-	-	8	-	8
Total financial assets	13,449	170,867	4,220	-	188,536
Other non-financial assets					2,182
Total assets					190,718
Financial liabilities					
Shares	-	-	-	125,574	125,574
Deposits from banks	-	-	-	3,230	3,230
Other deposits	-	-	2,985	3,762	6,747
Due to customers	-	-	-	5,960	5,960
Fair value adjustment for portfolio hedged risk	-	-	-	150	150
Debt securities in issue	-	-	-	33,429	33,429
Derivative financial instruments	-	-	3,885	-	3,885
Subordinated liabilities	-	-	-	2,540	2,540
Subscribed capital	-	-	-	1,304	1,304
Total financial liabilities	-	-	6,870	175,949	182,819
Other non-financial liabilities					1,319
Total liabilities					184,138

2012	**Available for sale**	**Loans and receivables**	**Fair value through income statement**	**Liabilities at amortised cost**	**Total**
	£m	*£m*	*£m*	*£m*	*£m*
Financial assets					
Cash	-	8,126	-	-	8,126
Loans and advances to banks	-	2,914	-	-	2,914
Investment securities	23,325	-	-	-	23,325
Derivative financial instruments	-	-	4,176	-	4,176
Fair value adjustment for portfolio hedged risk	-	1,330	-	-	1,330
Loans and advances to customers	-	154,169	-	-	154,169
Investments in equity shares	29	-	-	-	29
Total financial assets	23,354	166,539	4,176	-	194,069
Other non-financial assets					2,060
Total assets					196,129
Financial liabilities					
Shares	-	-	-	125,617	125,617
Deposits from banks	-	-	-	3,370	3,370
Other deposits	-	-	2,890	4,009	6,899
Due to customers	-	-	-	5,833	5,833
Fair value adjustment for portfolio hedged risk	-	-	-	278	278
Debt securities in issue	-	-	-	38,854	38,854
Derivative financial instruments	-	-	4,287	-	4,287
Subordinated liabilities	-	-	-	1,644	1,644
Subscribed capital	-	-	-	1,625	1,625
Total financial liabilities	-	-	7,177	181,230	188,407
Other non-financial liabilities					1,563
Total liabilities					189,970

2011	Available for sale	Loans and receivables	Fair value through income statement	Liabilities at amortised cost	Total
	£m	*£m*	*£m*	*£m*	*£m*
Financial assets					
Cash	-	6,130	-	-	6,130
Loans and advances to banks	-	4,181	-	-	4,181
Investment securities	21,540	-	-	-	21,540
Derivative financial instruments	-	-	3,961	-	3,961
Fair value adjustment for portfolio hedged risk	-	1,634	-	-	1,634
Loans and advances to customers	-	149,417	-	-	149,417
Investments in equity shares	103	-	-	-	103
Total financial assets	21,643	161,362	3,961	-	186,966
Other non-financial assets					1,987
Total assets					188,953
Financial liabilities					
Shares	-	-	-	122,552	122,552
Deposits from banks	-	-	-	2,746	2,746
Other deposits	-	-	2,125	3,684	5,809
Due to customers	-	-	-	5,762	5,762
Fair value adjustment for portfolio hedged risk	-	-	-	19	19
Debt securities in issue	-	-	-	37,808	37,808
Derivative financial instruments	-	-	3,234	-	3,234
Subordinated liabilities	-	-	-	1,973	1,973
Subscribed capital	-	-	-	1,510	1,510
Total financial liabilities	-	-	5,359	176,054	181,413
Other non-financial liabilities					1,298
Total liabilities					182,711

The other financial assets amount represents the fair value movement in mortgage commitments entered into where a loan has not yet been made.

Fair values of financial assets and liabilities

The following table summarises the carrying amounts and fair values of those financial assets and liabilities not presented on the balance sheets at fair value:

	2013		2012		2011	
	Carrying value	Fair value	Carrying value	Fair value	Carrying value	Fair value
	£m	£m	£m	£m	£m	£m
Financial assets						
Loans and advances to banks	**2,522**	**2,522**	2,914	2,914	4,181	4,181
Loans and advances to customers:						
Residential mortgages	**135,393**	**130,871**	128,645	123,655	124,453	119,472
Consumer banking	**3,401**	**3,413**	2,888	2,900	2,376	2,381
Commercial lending	**20,371**	**20,752**	22,157	21,930	22,107	22,357
Other lending	**422**	**422**	479	480	481	481
Financial liabilities						
Shares	**125,574**	**125,316**	125,617	125,968	122,552	122,767
Deposits from banks	**3,230**	**3,232**	3,370	3,570	2,746	2,766
Other deposits	**6,747**	**7,126**	6,899	6,900	5,809	5,811
Due to customers	**5,960**	**5,958**	5,833	5,836	5,762	5,762
Debt securities in issue	**33,429**	**34,003**	38,854	38,684	37,808	37,661
Subordinated liabilities	**2,540**	**2,566**	1,644	1,513	1,973	1,973
Subscribed capital	**1,304**	**1,012**	1,625	1,121	1,510	1,219

Loans and advances to customers

Loans and advances are net of provisions for impairment. The estimated fair value of loans and advances to customers represents the discounted amount of estimated future cash flows expected to be received based on expectations of future interest rates and future loan repayment profiles. For fixed rate loans, discount rates are based on the market offer rates currently available for equivalent fixed rate products. For retail variable rate loans, estimated future cash flows are discounted at the currently available market standard variable interest rate. Similar types of retail loan products are grouped together and the expected capital cash flows are discounted at the differential between the current product rate and the standard variable rate to determine fair value. The fair value estimations do not incorporate adjustments for future credit risk, however, incurred loss provisions are deducted from the fair value amounts.

Shares, deposits and borrowings

The estimated fair value of shares and deposits with no stated maturity, (including non-interest bearing deposits) is the amount repayable on demand. The estimated fair value of fixed interest rate shares, deposits and other borrowings without quoted market price represents the discounted amount of estimated future cash flows based on expectations of future interest rates, customer withdrawals and interest capitalisation. For variable interest rate deposits, estimated future cash flows are discounted using current market interest rates for new debt with similar remaining maturity. For fixed rate shares and deposits, the estimated future cash flows are discounted based on market offer rates currently available for equivalent deposits.

Debt securities in issue

The estimated fair values of longer dated liabilities are calculated based on quoted market prices where available or using similar instruments as a proxy for those liabilities that are not of sufficient size or liquidity to have an active market quote. For those notes where quoted market prices are not available, a discounted cash flow model is used based on a current yield curve appropriate for the remaining term to maturity.

Fair value measurement

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

2013	**Level 1**	**Level 2**	**Level 3**	**Total**
	£m	*£m*	*£m*	*£m*
Financial assets				
Investment securities – AFS	**8,641**	**4,720**	**60**	**13,421**
Investments in equity shares	**-**	**-**	**28**	**28**
Derivative financial instruments	**-**	**3,828**	**384**	**4,212**
Other financial assets	**-**	**8**	**-**	**8**
	8,641	**8,556**	**472**	**17,669**
Financial liabilities				
Derivative financial instruments	**-**	**(3,875)**	**(10)**	**(3,885)**
Other deposits – PEBs	**-**	**-**	**(2,985)**	**(2,985)**
	-	**(3,875)**	**(2,995)**	**(6,870)**

2012	**Level 1**	**Level 2**	**Level 3**	**Total**
	£m	*£m*	*£m*	*£m*
Financial assets				
Investment securities – AFS	16,493	6,756	76	23,325
Investments in equity shares	9	-	20	29
Derivative financial instruments	-	3,942	234	4,176
	16,502	10,698	330	27,530
Financial liabilities				
Derivative financial instruments	-	(4,250)	(37)	(4,287)
Other deposits – PEBs	-	-	(2,890)	(2,890)
	-	(4,250)	(2,927)	(7,177)

2011	**Level 1**	**Level 2**	**Level 3**	**Total**
	£m	*£m*	*£m*	*£m*
Financial assets				
Investment securities – AFS	12,319	9,126	95	21,540
Investments in equity shares	5	-	98	103
Derivative financial instruments	-	3,873	88	3,961
	12,324	12,999	281	25,604
Financial liabilities				
Derivative financial instruments	-	(3,158)	(76)	(3,234)
Other deposits – PEBs	-	-	(2,125)	(2,125)
	-	(3,158)	(2,201)	(5,359)

Level 1: Fair value derived from unadjusted quoted prices in active markets for identical assets or liabilities, e.g. G10 government securities.

Level 2: Fair value derived from inputs other than quoted prices that are observable for the asset or liability, either directly (i.e. a price) or indirectly (i.e. derived from prices), e.g. most investment grade and liquid bonds, asset backed securities, certain collateralised debt obligations (CDOs), collateralised loan obligations (CLOs) and OTC derivatives.

Level 3: Inputs for the asset or liability are not based on observable market data (unobservable inputs), e.g. private equity investments, derivatives including an equity element, deposits including an equity element, some CDOs and certain asset backed securities and bonds.

Other financial assets represent fair value movements in mortgage commitments entered into where a loan has not yet been made. The Group recommenced the practice of fair valuing a portion of the mortgage commitments on the balance sheet during the year.

The Group's Level 1 portfolio comprises highly rated government securities for which traded prices are readily available. During the year ended 4 April 2013, the Group has reduced this portfolio in response to the changing regulatory environment created by the Funding for Lending Scheme (FLS). There were no significant transfers between the Level 1 and 2 portfolios during the year.

Asset valuations for Level 2 AFS investment securities are sourced from consensus pricing or other observable market prices. None of the Level 2 AFS assets are valued from models. Level 2 derivative assets and liabilities are valued from discounted cash flow models using yield curves based on observable market data.

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

Investment securities – AFS

The Group's £60 million Level 3 AFS investment securities at 4 April 2013 comprise mainly £59 million of CDOs, including CDOs with a fair value of £13 million that are subject to impairment.

Level 3 AFS investment securities of £76 million at 4 April 2012 comprise £53 million of CDOs and £23 million of impaired UK CMBS assets.

Level 3 AFS investment securities of £95 million at 4 April 2011 comprise £60 million of CDOs, £32 million of impaired UK CMBS assets and an illiquid security of £3 million.

Substantially all of these securities are priced from internal models based on observable and unobservable performance assumptions.

Investments in equity shares

The level 3 investments in equity shares include an interest of £28 million at 4 April 2013 (2012: £20 million, 2011: £27 million) in a fund which is supported by zero coupon bonds of an A rated bank. External valuations are used to obtain the fair value of the instrument.

The total level 3 investment in equity shares of £98 million at 4 April 2011 also includes £71 million relating to private equity holdings. Valuations were based on the details of the underlying funds combined with earnings estimates and applicable discount rates at the balance sheet date.

Derivative financial instruments

Level 3 assets and liabilities in this category are equity linked derivatives with external counterparties which economically match the investment return payable by the Group to investors in the PEB product. The derivatives are linked to the performance of specified stock market indices and have been valued by an external third party.

Other deposits – PEBs

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

Level 3 portfolio – movements analysis

The table below analyses movements in the Level 3 portfolio:

2013	**Investment securities – AFS**	**Investments in equity shares**	**Net derivative financial instruments**	**Other deposits - PEBs**
	£m	*£m*	*£m*	*£m*
At 5 April 2012	76	20	197	(2,890)
Gain/(loss) recognised in the income statement:				
Net interest expense	**-**	**-**	**(52)**	**-**
Gains/(losses) from derivatives and hedge accounting	**-**	**-**	**174**	**(160)**
Impairment losses on investment securities	**(23)**	**-**	**-**	**-**
Gain recognised in other comprehensive income - fair value movement taken to equity	**3**	**8**	**-**	**-**
Settlements	**-**	**-**	**55**	**65**
Transfers out of Level 3	**4**	**-**	**-**	**-**
At 4 April 2013	**60**	**28**	**374**	**(2,985)**

The significant movements in Level 3 positions during the year ended 4 April 2013 are explained below:

- The reduction in investment securities has been driven by the further impairment of a UK commercial mortgage backed security (CMBS), asset partially offset by transfers of three assets from Level 2 to Level 3, together with a price increase in a CDO asset.

- The increase in investments in equity shares is due to price increases driven by an improvement in both the issuer's credit default swap and CLO values.

- The increase in the other deposits PEBs liability relates to positive stock market performance over the past 12 months. The settlement is due to customers withdrawing their deposits.

- The increase in net derivative financial instruments is due to an increase in the market value of the derivatives. Settlements are interest paid together with swap receipts for early redemption.

2012	**Investment securities – AFS**	**Investments in equity shares**	**Net derivative financial instruments**	**Other deposits - PEBs**
	£m	*£m*	*£m*	*£m*
At 5 April 2011	95	98	12	(2,125)
Gain/(loss) recognised in the income statement:				
Net interest income/(expense)	1	-	(53)	-
Gains/(losses) from derivatives and hedge accounting	-	-	185	(179)
Impairment losses on investment securities	(9)	(7)	-	-
Loss recognised in other comprehensive income - fair value movement taken to equity	(6)	(6)	-	-
Issues	-	-	-	(635)
Additions	-	2	-	-
Settlements	-	(67)	53	49
Transfers out of Level 3	(5)	-	-	-
At 4 April 2012	76	20	197	(2,890)

The significant movements in Level 3 positions during the year ended 4 April 2012 are explained below:

- The increase in other deposits relates to growth in PEBs driven by strong stock market performance over the year and further investment into this product.
- Investments in equity shares have decreased in the year primarily as a result of one of the Group's investments as described in note 18.
- The reduction in investment securities was driven by decreases in asset prices, a further impairment relating to a UK CMBS asset and an increase in the availability of observable market prices resulting in the transfer of assets from Level 3 to Level 2.
- The increase in net derivative financial instruments is primarily due to an increase in the market value of the derivatives. Settlements are interest paid together with swap receipts for early redemption.

Level 3 portfolio – movements analysis

2011	Investment securities – AFS	Investments in equity shares	Net derivative financial instruments	Other deposits - PEBs
	£m	*£m*	*£m*	*£m*
At 5 April 2010	106	79	(44)	(1,128)
(Loss)/gain recognised in the income statement:				
Net interest expense	(3)	-	(31)	-
Gains/(losses) from derivatives and hedge accounting	-	-	87	(56)
Impairment losses on investment securities	(15)	-	-	-
(Loss)/gain recognised in other comprehensive income - fair value movement taken to equity	(5)	5	-	-
Issues	-	-	-	(966)
Additions	-	25	-	-
Settlements	(11)	(11)	-	25
Transfers in to Level 3	46	-	-	-
Transfers out of Level 3	(23)	-	-	-
At 4 April 2011	95	98	12	(2,125)

The significant movements in Level 3 positions during the year ended 4 April 2011 are explained below:

- An increase in other deposits – PEBs reflecting strong market growth in the year (with a corresponding movement in equity linked derivatives) and further investment into the product.
- A decrease in investment securities – AFS reflecting a small number of disposals and transfers out of level 3 in respect of Icelandic financial institutions and other assets as improving market sentiment resulted in the availability of more observable prices, net of a transfer in relating to an impaired UK CMBS asset now subject to model valuation using unobservable inputs.
- An increase in investments in equity shares, reflecting improving market conditions and additional drawdowns of an existing investment portfolio.

Level 3 portfolio – sensitivity analysis

The table below provides sensitivity analysis of reasonably possible alternative valuation assumptions for the assets in the Level 3 portfolio.

2013	Carrying value	Increase in fair value	Decrease in fair value
	£m	*£m*	*£m*
Investment securities – AFS:			
Collateralised debt obligations	**60**	**15**	**(11)**
Investments in equity shares	**28**	**-**	**(7)**
	88	**15**	**(18)**
Increases/(decreases) in fair value would be recognised in:			
Income statement		**5**	**(2)**
Statement of other comprehensive income (accumulated in the AFS reserve)		**10**	**(16)**
		15	**(18)**

2012	**Carrying value**	**Increase in fair value**	**Decrease in fair value**
	£m	*£m*	*£m*
Investment securities – AFS:			
Collateralised debt obligations	53	16	(30)
Commercial mortgage backed securities (CMBS)	23	16	(15)
Investments in equity shares	20	2	(4)
	96	34	(49)
Increases/(decreases) in fair value would be recognised in:			
Income statement		23	(20)
Statement of other comprehensive income (accumulated in the AFS reserve)		11	(29)
		34	(49)

2011	**Carrying value**	**Increase in fair value**	**Decrease in fair value**
	£m	*£m*	*£m*
Investment securities – AFS:			
Collateralised debt obligations	60	25	(36)
Financial institutions	32	11	(21)
Other investments	3	-	-
Investments in equity shares	98	2	(9)
	193	38	(66)
Increases/(decreases) in fair value would be recognised in:			
Income statement		11	(21)
Statement of other comprehensive income (accumulated in the AFS reserve)		27	(45)
		38	(66)

Reasonable alternative assumptions applied take account of the nature of valuation techniques used, as well as the availability and reliability of observable proxy and historic data. The scenarios applied are considered for each product and varied according to the quality of the data and variability of the underlying market.

Any increases in fair values of the PEB deposit would be offset by decreases in the fair values of the associated PEB derivative financial instruments and vice versa. Any resultant impact is deemed by the Group to be insignificant so these items have therefore been excluded from the table above.

The sensitivities for other items are described below:

Investment securities – AFS

- Collateralised debt obligations

  Sensitivities on these assets, where there are no alternative pricing sources, have been calculated by applying a range of probable scenarios against Nationwide's current valuation process, resulting in a range of possible prices.

- Commercial mortgage backed securities

  Sensitivities on these assets, which are subject to impairment, have been derived from a modelled approach using estimated expected losses at legal maturity and risk adjusted discount rates.

Investments in equity shares

Sensitivities in these holdings have been based on the prices seen in these holdings in the preceding 12 months. As the highest price in the previous 12 months was equal to the current price, there is no upper sensitivity of fair value.

37 Offsetting financial assets and financial liabilities

The Group has financial assets and liabilities for which there is a legally enforceable right to set off the recognised amounts, but for which there is no intention to settle on a net basis or to realise the asset and liabilities simultaneously (the **Offset Criteria**). Therefore, in accordance with IAS 32 Financial Instruments: Presentation, there are no financial assets or liabilities which are offset with the net amount presented on the balance sheet. All financial assets and liabilities are presented on a gross basis on the balance sheet.

In accordance with IFRS 7 Offsetting Disclosures, the following table shows the impact on derivative financial instruments, total return swaps, reverse repurchase agreements and repurchase agreements relating to transactions where:

- There is an enforceable master netting arrangement or similar agreement in place but the Offset Criteria are otherwise not satisfied, and
- Financial collateral is paid and received.

Master netting arrangements consist of agreements such as an ISDA Master Agreement, global master repurchase agreements and global master securities lending agreements, whereby outstanding transactions with the same counterparty can be offset and settled net following a default or other predetermined event.

Financial collateral on derivative financial instruments consists of cash and securities settled, typically daily or weekly, to mitigate the mark to market exposures. Financial collateral on total return swaps, repurchase agreements and reverse repurchase agreements typically comprises highly liquid securities which are legally transferred and can be liquidated in the event of counterparty default.

The 'Net amounts after offsetting under IFRS 7' presented below show the exposure to counterparty credit risk for derivative contracts after netting benefits and collateral, and are not intended to represent the Group's actual exposure to credit risk. This is due to a variety of credit mitigation strategies which are employed in addition to netting and collateral arrangements. Further details can be found in note 34.

2013	Gross and net amounts reported on the balance sheet	Master netting arrangements	Financial collateral	Net amounts after offsetting under IFRS 7
	£m	*£m*	*£m*	*£m*
Financial assets				
Derivative financial instruments	**4,212**	**(2,208)**	**(1,631)**	**373**
Total Return Swaps	**149**	**-**	**(149)**	**-**
Total assets	**4,361**	**(2,208)**	**(1,780)**	**373**
Financial liabilities				
Derivative financial liabilities	**3,885**	**(2,208)**	**(1,559)**	**118**
Repurchase agreements	**1,207**	**-**	**(1,207)**	**-**
Total liabilities	**5,092**	**(2,208)**	**(2,766)**	**118**

2012	Gross and net amounts reported on the balance sheet	Master netting arrangements	Financial collateral	Net amounts after offsetting under IFRS 7
	£m	£m	£m	£m
Financial assets				
Derivative financial instruments	4,176	(1,928)	(1,109)	1,139
Total Return Swaps	149	-	(149)	-
Total assets	4,325	(1,928)	(1,258)	1,139
Financial liabilities				
Derivative financial liabilities	4,287	(1,928)	(2,227)	132
Repurchase agreements	2,145	-	(2,145)	-
Total liabilities	6,432	(1,928)	(4,372)	132

2011	Gross and net amounts reported on the balance sheet	Master netting arrangements	Financial collateral	Net amounts after offsetting under IFRS 7
	£m	£m	£m	£m
Financial assets				
Derivative financial instruments	3,961	(1,321)	(935)	1,705
Reverse repurchase agreements	1,500	-	(1,500)	-
Total assets	5,461	(1,321)	(2,435)	1,705
Financial liabilities				
Derivative financial liabilities	3,234	(1,321)	(1,454)	459
Repurchase agreements	1,249	-	(1,249)	-
Total liabilities	4,483	(1,321)	(2,703)	459

38 Related party transactions

Subsidiary, parent and ultimate controlling party

The Group is controlled by Nationwide Building Society, the ultimate parent, which is registered in England and Wales. Details of principal subsidiary undertakings can be found in note 19.

Key management compensation

The Directors are considered to be the key management personnel as defined by IAS 24 Related Party Disclosures.

Total compensation for key management personnel as required to be reported under the Building Societies (Accounts and Related Provisions) Regulations 1998 was as follows.

Executive Directors' pay

Executive Directors	Fixed remuneration Salary (Note 1)	Benefits	Pension allowance (note 3)	Variable remuneration Annual Performance Pay	Medium Term Performance pay	Total Pay Package	Increase in accrued pension	Contractual/ other settlements (Note 2)	Total including accrued pension and settlements
2013	*£'000*	*£'000*	*£'000*	*£'000*	*£'000*	*£'000*	*£'000*	*£'000*	*£'000*
G J Beale	**825**	**127**	**330**	**400**	**576**	**2,258**	**-**	**-**	**2,258**
T P Prestedge	**470**	**46**	**155**	**233**	**274**	**1,178**	**-**	**-**	**1,178**
M M Rennison	**560**	**122**	**185**	**250**	**331**	**1,448**	**-**	**-**	**1,448**
C S Rhodes	**470**	**36**	**155**	**210**	**274**	**1,145**	**-**	**-**	**1,145**
M P V Wyles	**318**	**41**	**111**	**-**	**-**	**470**	**-**	**1,373**	**1,843**
	2,643	**372**	**936**	**1,093**	**1,455**	**6,499**	**-**	**1,373**	**7,872**

Executive Directors	Fixed remuneration Salary	Benefits	Pension allowance (Note 3,4)	Variable remuneration Annual Performance Pay	Medium Term Performance pay	Total Pay Package	Increase in accrued pension (Note 5)	Contractual/ other settlements	Total including pension benefits
2012	*£'000*	*£'000*	*£'000*	*£'000*	*£'000*	*£'000*	*£'000*	*£'000*	*£'000*
G J Beale	825	120	330	400	576	2,251	-	-	2,251
T P Prestedge	470	30	155	161	254	1,070	-	-	1,070
M M Rennison	560	119	161	192	312	1,344	2	-	1,346
C S Rhodes	470	29	155	161	254	1,069	-	-	1,069
M P V Wyles	470	29	124	161	254	1,038	2	-	1,040
	2,795	327	925	1,075	1,650	6,772	4	-	6,776

Executive Directors	Fixed remuneration Salary (Note 6)	Benefits	Pensions allowances (Note 4)	Variable remuneration Annual Performance Pay	Medium Term Performance pay	Total Pay Package	Increase in accrued pension (Note 5)	Contractual/ other settlements	Total including pension benefits
2011	*£'000*	*£'000*	*£'000*	*£'000*	*£'000*	*£'000*	*£'000*	*£'000*	*£'000*
G J Beale	650	105	101	441	650	1,947	14	-	1,961
T P Prestedge	350	28	105	178	266	927	-	-	927
M M Rennison	440	124	99	224	334	1,221	11	-	1,232
C S Rhodes	350	29	116	182	266	943	-	-	943
D J Rigney	807	9	43	-	-	859	-	-	859
M P V Wyles	350	12	65	185	266	878	5	-	883
	2,947	307	529	1,210	1,782	6,775	30	-	6,805

Notes:
1. Includes salary for M P V Wyles up to 3 December 2012 when he stepped down from the Board.
2. M P V Wyles' contractual settlement is made up of salary and benefits, including pensions allowance, for the period from 4 December 2012 to 30 April 2013, during which he was employed by the Group in an advisory capacity. In addition his settlement includes other payments he is entitled to including salary for the balance of his notice period, his 2012/13 annual bonus and his payment under the 2010/13 Medium Term Bonus Scheme.
3. During 2011/12, G J Beale, MM Rennison and M P V Wyles ceased to be members of defined benefit schemes and in return receive a cash allowance. For these Directors, the pension allowance in 2011/12 and 2012/13 is shown as the cash benefit and represents the true costs to the Group. Previously the pension benefit was shown as the annual increase in the pension that the Director would receive when they retire, which did not represent the full cost to the Group of providing the benefit. The Group has reported this way in accordance with the Building Societies (Accounts and Related Provisions) Regulations 1998.
4. G J Beale opted out of the CARE arrangement completely from 1 April 2011.
5. This is the increase in accrued pension excluding indexation for inflation and not the cost to the Group.
6. D J Rigney stepped down from the Board on 21 July 2010. His salary costs included £700,000 in relation to contractual settlement payments, which were made up of salary and performance pay for the balance of his notice period, earned Medium Term Performance Pay Plan payments (based on the Group's performance and reduced to take into account that he left the Group before the end of the normal plan cycles) and other payments that he was entitled to.

Executive Directors' pensions

Executive Directors	Accrued pension at 4.4.13	Accrued pension at 4.4.12	Transfer value at 4.4.13 (Note 2)	Transfer value at 4.4.12	Change in transfer value (Note 2)	Additional pensions earned in year	Transfer value of the increase	Directors' contributions in year
	£'000 *(a)*	*£'000* *(b)*	*£'000* *(c)*	*£'000* *(d)*	*£'000* *(c)-(d)*	*£'000* *(e)*	*£'000* *(f)*	*£'000* *(g)*
G J Beale	**274**	**268**	**6,242**	**5,001**	**1,241**	**-**	**-**	**-**
M M Rennison	**56**	**55**	**1,241**	**947**	**294**	**-**	**-**	**-**
M P V Wyles (Note 1)	**60**	**58**	**1,464**	**1,146**	**318**	**-**	**-**	**-**

Executive Directors	Accrued pension at 4.4.12	Accrued pension at 4.4.11	Transfer value at 4.4.12	Transfer value at 4.4.11	Change in transfer value	Additional pensions earned in year	Transfer value of the increase	Directors' contributions in year
	£'000 *(a)*	*£'000* *(b)*	*£'000* *(c)*	*£'000* *(d)*	*£'000* *(c)-(d)*	*£'000* *(e)*	*£'000* *(f)*	*£'000* *(g)*
G J Beale	268	256	5,001	4,624	377	-	-	-
M M Rennison	55	53	947	896	51	-	-	6
M P V Wyles	58	56	1,146	1,079	67	-	-	8

Notes:
1. M P V Wyles left the Group on 30 April 2013 and has a deferred benefit entitlement that will receive statutory increases until he chooses to commence the pension benefit, or transfers to another scheme.
2. The Nationwide Pension Fund Trustees changed, with actuarial advice, the transfer value basis this year and the updated values reflect the fall in gilt yields. This has had the impact of increasing transfer values for most pension fund members, including Executive Directors.

Explanations:
(a) and (b) show deferred pension entitlements at each reporting date.
(c) is the transfer value of the deferred pension in (a) calculated at each reporting date.
(d) is the transfer value of the deferred pension in (b) calculated at each reporting date.
(e) is the increase in pension built up during the year. A zero figure means that, after allowing for inflation, no additional pension was built up.
(f) is the capital value of the pension in (e).
(g) contributions are inclusive of salary sacrifice contributions.

Non Executive Directors' fees

The total fees paid to each Non Executive Director are shown below.

Non Executive Directors	2013 Fees (Note 1, 2)	2012 Fees (Note 1, 2)	2011 Fees (Note 1,2)
	£'000	*£'000*	*£'000*
G M T Howe (Chairman)	**300**	300	250
Ms R Clifton	**60**	-	-
Mrs S J David	**-**	-	23
A P Dickinson	**112**	111	75
M K Jary	**74**	74	58
M A Lenson	**85**	55	-
K Loosemore	**-**	-	11
Mrs L M Peacock	**96**	57	-
R K Perkin	**122**	111	84
D A Ross	**-**	-	38
Ms S Taverne	**27**	80	61
W Tudor John (Joint Deputy Chairman)	**-**	27	102
R P Walther (Joint Deputy Chairman)	**43**	131	138
Total	**919**	946	840
Pension payments to past Directors in respect of services as Directors (Note 3)	**402**	396	381

Notes:

1. R P Walther and Ms S Taverne retired from the Board on 19 July 2012 and Ms R Clifton was appointed to the Board on 1 July 2012. W Tudor John retired from the Board on 21 July 2011 and Mrs L M Peacock and M A Lenson were appointed to the Board on 18 July 2011. K Loosemore retired from the Board on 21 April 2010. Mrs S J David and D A Ross retired from the Board on 22 July 2010. R K Perkin and A P Dickinson were appointed to the Board on 20 April 2010 and 15 June 2010 respectively.
2. In addition to his non executive director fees, R P Walther also received additional fees of £15,000 (2012 and 2011: £20,000) as Chairman of the Investment Sub-Committee/Investment adviser of the Nationwide Pension Scheme.
3. These are pension payments in respect of past Non Executive Directors. The Group stopped granting pension rights to Non Executive Directors who joined the Board after January 1990.

Transactions with related parties

A number of transactions are entered into with related parties in the normal course of business. These include loans, deposits and the payment and recharge of administrative expenses. The volumes of related party transactions, outstanding balances at the year end, and the related income and expenses for the year are as follows:

	Key management personnel		
	2013	**2012**	**2011**
	£m	*£m*	*£m*
Loans payable to the Group			
Loans outstanding at 5 April	0.6	0.6	0.9
Loans issued during the year	**0.5**	0.2	0.9
Loan repayments during the year	**(0.3)**	(0.2)	(1.2)
Loans outstanding at 4 April	**0.8**	0.6	0.6
Deposits payable by the Group			
Deposits outstanding at 5 April	3.6	2.1	5.0
Deposits issued during the year	**10.2**	9.0	10.6
Deposit repayments during the year	**(9.4)**	(7.5)	(13.5)
Deposits outstanding at 4 April	**4.4**	3.6	2.1
Net interest income			
Interest receivable	**-**	-	-
Interest expense	**-**	-	0.1

On 19 July 2011 the Group sold, at arm's length, private equity holdings with a carrying value of £65 million, to the Nationwide Pension Fund, a related party, for £68 million. The assets were included previously within investments in equity shares and the resulting profit of £3 million was included in income from investments in the year ended 4 April 2012.

Transactions with key management personnel

Transactions with key management personnel are on the same terms and conditions applicable to other employees within the Group.

A register is maintained by the Group containing details of loans, transactions and arrangements made between the Society or its subsidiary undertakings and Directors or persons connected with Directors of the Group.

The register was available for inspection by members at the Annual General Meeting on 24 July 2013 and during normal office hours at the Group's principal office (Nationwide House, Pipers Way, Swindon) during the period of 15 days prior to the meeting.

39 Notes to the cash flow statements

	2013	2012	2011
	£m	£m	£m
Non-cash items included in profit before tax			
Net increase in impairment provisions	**381**	78	15
Net increase/(decrease) in provisions for liabilities and charges	**23**	130	(25)
Impairment losses on investment securities	**2**	38	66
Depreciation and amortisation	**216**	180	150
Loss on sale of property plant and equipment	**-**	3	-
Interest on subordinated liabilities	**96**	108	110
Interest on subscribed capital	**89**	96	96
Loss on the revaluation of land and buildings	**-**	6	1
Gain on the revaluation of investment properties	**-**	-	(1)
Gain on acquisition of retail mortgages portfolios	**-**	(96)	-
Losses/(gains) from derivatives and hedge accounting	**165**	(35)	(120)
Gain on the redemption of subscribed capital	**(43)**	-	-
Gain on the sale of investments in equity shares	**(7)**	-	-
	922	508	292
Changes in operating assets			
Loans and advances to banks	**7**	(153)	13
Investment securities	**(1,116)**	(1,215)	472
Derivative financial instruments and fair value adjustment for portfolio hedged risk	**257**	124	2,246
Deferred tax assets	**75**	(11)	182
Loans and advances to customers	**(5,799)**	(3,630)	2,997
Other operating assets	**(39)**	84	(105)
	(6,615)	(4,801)	5,805
Changes in operating liabilities			
Shares	**(43)**	3,065	1,609
Deposits from banks, customers and others	**(165)**	1,785	(3,308)
Derivative financial instruments and fair value adjustment for portfolio hedged risk	**(530)**	1,312	(1,882)
Debt securities in issue	**(5,425)**	1,046	1,006
Deferred tax liabilities	**2**	(8)	(3)
Retirement benefit obligations	**(163)**	217	(208)
Other operating liabilities	**169**	(118)	(16)
	(6,155)	7,299	(2,802)
Cash and cash equivalents			
Cash	**7,886**	8,126	6,130
Loans and advances to banks repayable in 3 months or less	**2,189**	2,574	3,994
	10,075	10,700	10,124

Changes in operating liabilities include movements in the Group's wholesale funding balances of deposits from banks, other deposits and debt securities in issue. These are considered operating activities as they relate to the Group's lending activity and liquidity management and so form part of the normal course of business. Movements in subordinated liabilities and subscribed capital are considered financing activities because these form part of Nationwide's capital management for solvency purposes.

The Group is required to maintain balances with the Bank of England which, at 4 April 2013, amounted to £185 million (2012: £192 million, 2011: £187 million). These balances are included within loans and advances to banks on the balance sheet and are not included in the cash and cash equivalents in the cash flow statement as they are not liquid in nature.

40 Post balance sheet events

On 2 May 2013, Nationwide announced the commencement of a strategic programme of work to migrate the customers, products and distribution channels currently branded Dunfermline, Cheshire and Derbyshire into a single branded Nationwide organisation. The programme will ensure the smooth transition of circa one million account holders and disposal of assets to deliver ongoing cost savings from 2015/16.

On 20 June 2013 the PRA announced adjusted capital targets for financial institutions. The Society consulted with the PRA in order to clarify its requirements and submitted its capital plan in accordance with the agreed timetable. On 12 July 2013 the PRA accepted the Society's capital plan.

On 22 August 2013 the Society, along with 12 banks and credit card issuers, agreed a Scheme of Arrangement to process claims of misselling of credit card insurance. The scheme, which is subject to the approval of the High Court and a creditors' vote, is expected to become effective from February 2014 and will cover premiums paid on sales and renewals post 2005.

On 27 August 2013, with the consent of the PRA, the Society launched a liability management exercise to repay five PIBS tranches. There were two offer periods in which the holders had the chance to participate. The first offer period closed on 9 September 2013. Following the first offer period, the following PIBS were repaid on 19 September 2013:

- £20 million of 6.875% PIBS at 100%
- £22 million of 7.25% PIBS at 100%
- £78 million of 6.25% PIBS at 91%
- £304 million of 5.769% PIBS at 95%
- £61 million of 7.859% PIBS at 106.5%

The repayments above resulted in a net gain of £124 million in other operating income.

The second offer period closed on 24 September 2013 following which a further £21 million of PIBS were repaid on 4 October 2013. These repayments resulted in a net gain of £1 million.

41 Capital management

The Group is subject to the capital requirements imposed by its regulator the PRA, formerly the FSA. Regulatory capital comprises the Group's general reserve, revaluation reserve, PIBS and subordinated debt, subject to various adjustments required by the capital rules.

During the year the Group complied with the capital requirements set by the PRA.

Capital is held by the Group to protect its depositors, cover its inherent risks, provide a cushion for stress events and to support its business strategy. In assessing the adequacy of its capital resources, Nationwide considers its risk appetite, the material risks to which it is exposed and the appropriate strategies required to manage those risks.

The Group is required to manage its capital in accordance with prudential rules issued by the PRA, and from 1 January 2008 the Group has complied with the rules which implement the EU Capital Requirements Directive (Basel II). Since 4 April 2009 the Group has predominantly calculated its capital requirements on an Internal Ratings Based (IRB) approach.

42 Registered office

Nationwide is a building society, incorporated and domiciled in the United Kingdom. The address of its registered office is:

Nationwide Building Society
Nationwide House
Pipers Way, Swindon
SN38 1NW

Section C – Consolidated Interim Financial Information

Nationwide Building Society – Interim Results

CONDENSED CONSOLIDATED INCOME STATEMENT (Unaudited)

	Notes	Half year to 30 September 2013 £m	Half year to 30 September 2012* £m
Interest receivable and similar income	3	**2,581**	2,684
Interest expense and similar charges	4	**(1,497)**	(1,794)
Net interest income		**1,084**	890
Fee and commission income		**236**	268
Fee and commission expense		**(61)**	(54)
Income from investments		**2**	9
Other operating income	5	**126**	-
Losses from derivatives and hedge accounting	6	**(16)**	(14)
Total income		**1,371**	1,099
Administrative expenses	7	**(645)**	(579)
Depreciation and amortisation		**(133)**	(97)
Impairment losses on loans and advances to customers	8	**(253)**	(258)
Impairment gains/(losses) on investment securities		**1**	(23)
Provisions for liabilities and charges	9	**(71)**	(39)
Profit before tax		**270**	103
Taxation	10	**(36)**	17
Profit after tax		**234**	120

* Comparatives have been restated in accordance with IAS 19 (Revised). Refer to note 2 for further details.

The notes on pages 80 to 102 form an integral part of this condensed consolidated interim financial information.[1]

(1) The equivalent pages in this document are 361 to 383

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (Unaudited)

	Half year to 30 September 2013	Half year to 30 September 2012*
	£m	*£m*
Profit after tax	**234**	120
Other comprehensive income/(expense):		
Items that will not be reclassified to the income statement		
Actuarial remeasurements of retirement benefit obligations:		
Actuarial remeasurements before tax	**(175)**	(150)
Taxation	**20**	36
	(155)	(114)
Revaluation of property:		
Effect of tax rate change on the revaluation reserve	**1**	-
Effect of tax rate change on other items through the general reserve	**(2)**	(12)
Items that may subsequently be reclassified to the income statement		
Available for sale investments:		
Fair value movements taken to equity	**69**	99
Amount transferred to the income statement	**50**	(35)
Taxation	**(30)**	(21)
	89	43
Other comprehensive expense	**(67)**	(83)
Total comprehensive income	**167**	37

* Comparatives have been restated in accordance with IAS 19 (Revised). Refer to note 2 for further details.

The notes on pages 80 to 102 form an integral part of this condensed consolidated interim financial information.

Nationwide Building Society – Interim Results

CONDENSED CONSOLIDATED BALANCE SHEET

	Notes	30 September 2013 (Unaudited) £m	4 April 2013 (Audited) £m
Assets			
Cash		**9,737**	7,886
Loans and advances to banks		**2,537**	2,522
Investment securities – available for sale		**11,225**	13,421
Derivative financial instruments		**3,439**	4,212
Fair value adjustment for portfolio hedged risk		**366**	872
Loans and advances to customers	11	**163,863**	159,587
Investments in equity shares		**28**	28
Intangible assets		**916**	894
Property, plant and equipment		**880**	886
Investment properties		**8**	8
Accrued income and expenses prepaid		**172**	147
Deferred tax assets		**136**	154
Current tax assets		**-**	15
Other assets		**25**	86
Total assets		**193,332**	190,718
Liabilities			
Shares		**130,951**	125,574
Deposits from banks		**3,265**	3,230
Other deposits		**7,137**	6,747
Due to customers		**5,953**	5,960
Fair value adjustment for portfolio hedged risk		**77**	150
Debt securities in issue		**31,761**	33,429
Derivative financial instruments		**2,781**	3,885
Other liabilities		**484**	251
Provisions for liabilities and charges	9	**245**	318
Accruals and deferred income		**294**	366
Subordinated liabilities	12	**2,438**	2,540
Subscribed capital	12	**631**	1,304
Deferred tax liabilities		**28**	30
Retirement benefit obligations		**540**	354
Total liabilities		**186,585**	184,138
General reserve		**6,842**	6,765
Revaluation reserve		**68**	67
Available for sale reserve		**(163)**	(252)
Total reserves and liabilities		**193,332**	190,718

The notes on pages 80 to 102 form an integral part of this condensed consolidated interim financial information.

CONDENSED CONSOLIDATED STATEMENT OF MOVEMENTS IN MEMBERS' INTERESTS (Unaudited)

For the half year ended 30 September 2013

	General reserve	Revaluation reserve	AFS reserve	Total
	£m	*£m*	*£m*	*£m*
At 5 April 2013	6,765	67	(252)	6,580
Profit for the half year	**234**	**-**	**-**	**234**
Net movement in available for sale reserve	**-**	**-**	**89**	**89**
Effect of tax rate change on the revaluation reserve	**-**	**1**	**-**	**1**
Effect of tax rate change on other items through the general reserve	**(2)**	**-**	**-**	**(2)**
Net actuarial remeasurement of retirement benefit obligations	**(155)**	**-**	**-**	**(155)**
Total comprehensive income	**77**	**1**	**89**	**167**
At 30 September 2013	**6,842**	**68**	**(163)**	**6,747**

For the half year ended 30 September 2012

	General reserve*	Revaluation reserve	AFS reserve	Total*
	£m	*£m*	*£m*	*£m*
At 5 April 2012	6,450	65	(356)	6,159
Profit for the half year	120	-	-	120
Net movement in available for sale reserve	-	-	43	43
Reserve transfer	1	(1)	-	-
Effect of tax rate change on other items through the general reserve	(12)	-	-	(12)
Net actuarial remeasurement of retirement benefit obligations	(114)	-	-	(114)
Total comprehensive (expense)/income	(5)	(1)	43	37
At 30 September 2012	6,445	64	(313)	6,196

* Comparatives have been restated in accordance with IAS 19 (Revised). Refer to note 2 for further details.

The notes on pages 80 to 102 form an integral part of this condensed consolidated interim financial information.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT (Unaudited)

	Notes	Half year to 30 September 2013 £m	Half year to 30 September 2012* £m
Cash flows generated from operating activities			
Profit before tax		**270**	103
Adjustments for:			
– Non-cash items included in profit before tax	15	**324**	418
– Changes in operating assets	15	**(2,581)**	(3,292)
– Changes in operating liabilities	15	**2,938**	(2,923)
– Interest paid on subordinated liabilities		**(59)**	(57)
– Interest paid on subscribed capital		**(40)**	(45)
– Gain on redemption of subscribed capital		**(124)**	-
Taxation		**(17)**	(18)
Net cash flows generated from operating activities		**711**	(5,814)
Cash flows generated from investing activities			
Purchase of investment securities		**(931)**	(2,399)
Sale and maturity of investment securities		**2,491**	9,159
Purchase of property, plant and equipment		**(88)**	(63)
Sale of property, plant and equipment		**8**	4
Purchase of intangible assets		**(91)**	(103)
Sale of investment		**9**	-
Dividends received from non-Group entities		**2**	2
Net cash flows generated from investing activities		**1,400**	6,600
Net cash flows used in financing activities			
Redemption of subscribed capital		**(364)**	-
Net increase in cash		**1,747**	786
Cash and cash equivalents at start of period		**10,075**	10,700
Cash and cash equivalents at end of period	15	**11,822**	11,486

* Comparatives have been restated in accordance with IAS 19 (Revised). Refer to note 2 for further details.

The notes on pages 80 to 102 form an integral part of this condensed consolidated interim financial information.

NOTES TO THE INTERIM FINANCIAL INFORMATION

1 Reporting period

These results have been prepared as at 30 September 2013 and show the financial performance for the period from and including 5 April 2013 to this date.

2 Basis of preparation

This condensed consolidated interim financial information for the half year ended 30 September 2013 has been prepared in accordance with the Disclosure and Transparency Rules of the Financial Conduct Authority and with IAS 34 'Interim financial reporting' as adopted by the European Union (EU). The condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 4 April 2013, which have been prepared in accordance with IFRSs as adopted by the EU.

Accounting policies

The accounting policies adopted by the Group in the preparation of its September 2013 interim financial information and those which the Group currently expects to adopt in its 2014 Annual Report and Accounts are consistent with those disclosed in the 2013 Annual Report and Accounts except for amendments adopted in the first half of this financial year as described below. The accounting policies and disclosures adopted reflect the Group's current view of best practice. Copies of the 2013 Annual Report and Accounts are available at: nationwide.co.uk/about_nationwide/results_and_accounts/default.htm.

In the first half of the financial year the Group adopted the following IFRS pronouncements:

IAS 19 (Revised) Employee Benefits

The Group adopted IAS 19 (Revised) with effect from 5 April 2013. The revised standard replaces the interest cost and expected return on plan assets with a single interest amount calculated by applying the discount rate to the net defined asset or liability. The changes have been applied retrospectively and comparatives restated accordingly. A summary of the line item restatements for the half year to 30 September 2012 is provided below.

Half year to 30 September 2012

	Notes	Previously published	Adjustment	Restated
		£m	*£m*	*£m*
Interest receivable and similar income	3	2,777	(93)	2,684
Interest expense and similar charges	4	(1,868)	74	(1,794)
Net interest income		909	(19)	890
Administrative expenses	7	(577)	(2)	(579)
Profit before tax		124	(21)	103
Taxation	10	12	5	17
Profit after tax		136	(16)	120
Other comprehensive income/(expense)				
Actuarial remeasurements of retirement benefit obligations:				
– Actuarial remeasurements before tax		(171)	21	(150)
– Taxation		41	(5)	36
		(130)	16	(114)

There has been no impact on the Group's total assets, net assets or reserves at 30 September 2012 as a result of the restatement.

In addition, notes 15 (Notes to the cash flow statement) and 16 (Operating segments) have been impacted by the restatement.

IFRS 13 Fair Value Measurement

IFRS 13 has replaced guidance on fair value measurement in previous IFRS accounting publications with a single standard. The standard provides guidance on the calculation of the fair value of financial and non-financial assets and liabilities, and additionally requires enhanced disclosures including information on valuation techniques, inputs used in measuring fair value and significant detail on the fair value hierarchy. The IFRS 13 disclosures required by IAS 34 are given in note 13.

IFRS 7 Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities

The amendments require disclosure of the effect or potential effects of netting arrangements on an entity's financial position, including financial instruments that are subject to an enforceable master netting arrangement or similar agreement. This disclosure is given in note 14.

Future accounting developments

An overview of pronouncements that will be relevant to the Group in future periods is provided on pages 138 and 139 of the 2013 Annual Report and Accounts. The IASB has issued further pronouncements; however, the Group does not expect adoption of any of the new guidance to have a significant impact on its results with the exception of IFRS 9.

In addition, practice may develop with regard to interpretation and application of the standards or further standards may be introduced with the option for early adoption. We will update our results for any such changes should they occur. The Group's 2014 Annual Report and Accounts may, therefore, be prepared in accordance with different accounting policies from those used in this document.

The following new guidance should be noted:

- IFRIC 21 Levies – this interpretation provides guidance on accounting for the liability to pay a government imposed levy. IFRIC 21 is effective for annual periods beginning on or after 1 January 2014, subject to endorsement by the EU. The impact on the Group is currently being assessed, but could result in a change to the timing of recognition of the bank levy.

- IFRS 9 Financial Instruments is the new standard to replace IAS 39. It will change the classification and measurement of some financial assets, the recognition and the financial impact of impairment and hedge accounting. The proposals are yet to be finalised and therefore, it is not possible to estimate the financial effects, although it is expected that IFRS 9 will have a significant impact for the Group, in line with the wider industry. In July 2013, the IASB tentatively decided that the effective date of IFRS 9 will be deferred from 1 January 2015 to an unspecified date pending the finalisation of the standard.

Critical accounting estimates

The preparation of financial statements requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates. Details of critical accounting estimates are provided on page 147 of the 2013 Annual Report and Accounts.

In addition, further information on certain critical accounting estimates are disclosed in the following notes:

Area of significant judgement and estimate	Notes
Impairment provisions on loans and advances	8
Provisions for customer redress	9

Going concern

The Group's business activities and financial position, the factors likely to affect its future development and performance, its objectives and policies in managing the financial risks to which it is exposed, and its capital, funding and liquidity positions are discussed in the Business Review and the Risk Management Report.

The Directors have assessed, in the light of current and anticipated economic conditions, the Group's ability to continue as a going concern. The Directors confirm they are satisfied that the Group has adequate resources to continue in business for the foreseeable future and that therefore, it is appropriate to adopt the going concern basis in preparing this interim financial information.

3 Interest receivable and similar income

	Half year to 30 September 2013	Half year to 30 September 2012*
	£m	*£m*
On residential mortgages	**2,377**	2,397
On other loans	**519**	566
On investment securities	**200**	940
On other liquid assets	**22**	26
Net expense on financial instruments hedging assets	**(537)**	(1,245)
	2,581	2,684

* Comparatives have been restated in accordance with IAS 19 (Revised). Refer to note 2 for further details.

Interest receivable on residential mortgages includes adjustments to reflect the changes in the Group's effective interest rate assumptions, including a charge of £17 million (H1 2012/13: £16 million) in respect of an update to the amount and recognition profile of early redemption charges and a credit of £21 million (H1 2012/13: £nil million) which resulted from an update in the assumptions applicable to the recognition of mortgage fee income.

Interest receivable on residential mortgages in the six months ended 30 September 2012 included a £48 million release of excess credit risk fair value adjustments in relation to the balances taken on through the acquisition of the Derbyshire and Cheshire building societies and core parts of the Dunfermline Building Society.

The higher amounts recorded in H1 2012/13 for interest receivable on investment securities and net expense on financial instruments hedging assets are primarily driven by a significant number of disposals of investment securities during the period. These disposals generated a net loss in H1 2013/14 of £36 million (H1 2012/13: net gain of £69 million), which included a gain relating to the sale of gilts of £6 million (H1 2012/13: gain of £68 million).

4 Interest expense and similar charges

	Half year to 30 September 2013	Half year to 30 September 2012*
	£m	*£m*
On shares held by individuals	**1,181**	1,389
On subscribed capital	**36**	47
On deposits and other borrowings		
• Subordinated liabilities	**65**	46
• Other	**84**	113
On debt securities in issue	**417**	504
Foreign exchange differences	**17**	17
Net income on financial instruments hedging liabilities	**(311)**	(334)
Interest on net defined benefit pension liability	**8**	12
	1,497	1,794

* Comparatives have been restated in accordance with IAS 19 (Revised). Refer to note 2 for further details.

Interest expense for the half year ended 30 September 2013 is net of a £33 million credit (H1 2012/13: £38 million credit) which resulted from an update of the Group's effective interest rate assumptions in relation to the interest on savings accounts which offer an initial bonus.

5 Other operating income

	Half year to 30 September 2013	Half year to 30 September 2012
	£m	*£m*
Gain on redemption of subscribed capital	**124**	-
Rental income	**2**	2
Loss from sale of property, plant and equipment	**-**	(2)
	126	-

The £124 million gain on redemption of subscribed capital for the half year ended 30 September 2013 represents the net gain from the redemption of subscribed capital, redemption related fees and associated swap breakage income.

6 Losses from derivatives and hedge accounting

	Half year to 30 September 2013	Half year to 30 September 2012
	£m	*£m*
(Losses)/gains from fair value hedges	**(49)**	8
Fair value gains/(losses) from other derivatives	**33**	(22)
	(16)	(14)

Although the Group uses derivatives exclusively to hedge risk exposures in interest rates, exchange rates or market indices, income statement volatility can still arise due to hedge accounting ineffectiveness or because hedge accounting is not achievable. Management recognise that this arises from the application of the accounting rules which do not reflect the economic reality of the business and as such this volatility will continue period on period as new derivative transactions replace those which mature.

The £16 million loss (H1 2012/13: £14 million loss) from derivatives and hedge accounting represents the net change in fair value of derivative instruments versus the change in fair value of the underlying asset or liability. The two main components of this half year's loss were:

- A loss of £47 million relating to ineffectiveness in micro hedge relationships caused by increasing sterling and euro interest rates coupled with bond maturities and disposals;
- A £26 million gain as a result of continued volatility in the currency markets, particularly relating to sterling:euro basis risk which is economically hedged but where hedge accounting is not available.

The four main components of the loss for the period ended 30 September 2012 were a £74 million gain on micro hedge relationships following a large gilt disposal and an £11 million gain on the fair value of mortgage commitments offset by a £66 million loss arising from the reversal of past ineffectiveness in respect of the maturity of fixed rate mortgages and a £35 million loss as a result of sterling:euro volatility.

7 Administrative expenses

	Half year to 30 September 2013	Half year to 30 September 2012*
	£m	*£m*
Employee costs:		
• Wages, salaries and bonuses	**245**	233
• Social security costs	**23**	23
• Pension costs	**40**	38
	308	294
Other administrative expenses	**326**	277
Bank levy	**11**	8
	645	579

* Comparatives have been restated in accordance with IAS 19 (Revised). Refer to note 2 for further details.

Administrative expenses include £31 million (H1 2012/13: £11 million) of restructuring costs. These costs relate to the continuing restructuring of our business, largely in relation to the establishment of a more efficient and flexible sourcing model for the Group's technology and business change support and the Regional Brands integration programme.

Further information on the bank levy is included in note 9.

8 Impairment losses on loans and advances to customers

	Half year to 30 September 2013	Half year to 30 September 2012
	£m	*£m*
Impairment (credit)/charge for the period		
Prime residential	**(2)**	6
Specialist residential	**10**	20
Consumer banking	**16**	38
Commercial lending	**225**	193
Other lending	**4**	1
	253	258

The decrease in the consumer banking impairment charge is primarily a result of reflecting updated assumptions in respect of expected recoveries on the unsecured portfolios, which accounted for £27 million of the reduction.

Loans and advances to customers on the balance sheet are stated net of the following impairment provisions:

	30 September 2013 (Unaudited)	4 April 2013 (Audited)
	£m	*£m*
Impairment provision at the end of the period		
Prime residential	**25**	32
Specialist residential	**111**	133
Consumer banking	**123**	87
Commercial lending	**1,103**	958
Other lending	**8**	14
	1,370	1,224

Critical accounting estimates and judgements

In accordance with the accounting policy described in the 2013 Annual Report and Accounts, impairment is measured as the difference between an asset's carrying amount and the present value of management's estimate of discounted future cash flows.

In calculating the provisions for commercial loans, estimates of discounted future cash flows are made on the basis of the planned strategy for each loan. These estimates include assumptions for underlying property values and future expected cash flows for rental income and any maintenance, redevelopment or refurbishment expenditure on the properties. Commercial property values are driven by estimates of current and expected future rental incomes and by property yields, which are updated based upon industry wide data available for different property sectors.

9 Provisions for liabilities and charges

	Bank levy	FSCS	Customer redress	Other provisions	Total
	£m	*£m*	*£m*	*£m*	*£m*
At 5 April 2013	8	133	142	35	318
Provisions utilised	**(8)**	**(96)**	**(55)**	**(6)**	**(165)**
Charge for the period	**11**	**-**	**71**	**16**	**98**
Release for the period	**-**	**-**	**-**	**(6)**	**(6)**
Net income statement charge	**11**	**-**	**71**	**10**	**92**
At 30 September 2013	**11**	**37**	**158**	**39**	**245**
At 5 April 2012	5	111	105	74	295
Provisions utilised	(5)	(47)	(19)	(18)	(89)
Charge for the period	8	-	45	7	60
Release for the period	-	(6)	-	(9)	(15)
Net income statement charge/(release)	8	(6)	45	(2)	45
At 30 September 2012	8	58	131	54	251

The net income statement charge in relation to FSCS and customer redress is recognised within the provisions for liabilities and charges within the income statement. The net income statement charge for all other items is recognised within administrative expenses.

Bank levy

The £11 million bank levy charge in the half year ended 30 September 2013 (H1 2012/13: £8 million), included within administrative expenses, is half of the cost which the Group estimates will arise in respect of chargeable equity and liabilities as at 4 April 2014.

Financial Services Compensation Scheme (FSCS)

The Group pays levies to the FSCS based on its share of protected deposits. The FSCS has initially met claims from a number of defaulted institutions by way of approximately £18 billion of loans received from HM Treasury. The FSCS recovers the interest cost on these loans, together with ongoing management expenses, by way of annual levies on member firms. Whilst the majority of the borrowings are expected to be recovered from the defaulted deposit takers, the Group also has to provide for its share of an expected shortfall advised by the FSCS.

The FSCS provision of £37 million is in respect of the annual levy for the 2013/14 scheme year (30 September 2012: £58 million in respect of the 2012/13 scheme year). The Group estimates that a further provision of between £90 million and £100 million will be required during the second half of this financial year in respect of the FSCS annual levy for the 2014/15 scheme year, including £42 million in respect of the shortfall described above.

Further information regarding the FSCS provision is contained in note 27 of the 2013 Annual Report and Accounts.

Customer redress

The Group holds a provision for customer redress which reflects management's best estimate of the cost of complaints related to past sales of financial products, including PPI.

The Group has continued to experience a significant but declining volume of reactive PPI complaints during the first six months of the financial year, a substantial proportion of which relate to cases where there has been either no sale or no evidence of mis-selling. The increase in provision utilisation year on year reflects a proactive mailing that is nearing conclusion. The Group continues to re-assess the ultimate level of complaints expected and the appropriateness of the provision, which reflects the redress and associated administration that will be payable in relation to claims we expect to uphold. Further costs in relation to invalid claims are recognised in administrative expenses as incurred.

In light of a review of compliance with consumer credit legislation across the industry, the Group is undertaking a comprehensive review of its own documentation and processes and has identified a small number of areas which require further enquiry. The provision charge of £71 million during the period relates to potential costs to remediate these issues should further investigation identify the need to do so.

Other provisions

Other provisions include provisions for severance costs and a number of property related provisions. Provisions are made for the expected severance costs in relation to the Group's restructuring activities where there is present obligation and it is probable that the expenditure will be made.

Critical accounting estimates and judgements

Customer redress provision

The customer redress provision of £158 million at 30 September 2013 includes balances related to past sales of financial products, including PPI, together with an estimate of the potential costs of customer restitution in respect of a number of issues which are still under enquiry.

The amount of the provision related to past sales of PPI is calculated based upon management's best estimate of complaint volumes, referral rates to the Financial Ombudsman Service (FOS), uphold rates internally and with the FOS, response rates from customer contact activity relating to our previous sales, average redress payments and complaint handling costs. The main sensitivity to the estimate is the proactive mailing response rate, with each 1% increase in the expected level of complaints increasing the required provision by approximately £2 million. A 1% change in either the uphold rates or the average redress paid would also change the provision by approximately £1 million.

Other amounts that are provided as an estimate of the potential costs of remediation are subject to ongoing review of the consumer credit regulations to determine whether any remediation is necessary.

10 Taxation

	Half year to 30 September 2013	Half year to 30 September 2012
	£m	*£m*
Current tax:		
UK corporation tax	**32**	29
Deferred tax:		
Current year	**32**	–
Adjustment in respect of prior years	**(14)**	(40)
Effect of corporation tax rate change	**(14)**	(6)
	4	(46)
Tax charge/(credit)	**36**	(17)

During the half year, progress was made on an outstanding tax matter relating to prior periods, resulting in a release of excess provision. This release accounts for £13 million of the total prior year credit of £14 million (H1 2012/13: £40 million).

11 Loans and advances to customers

	30 September 2013 (Unaudited)	4 April 2013 (Audited)
	£m	*£m*
Prime residential mortgages	**115,664**	110,587
Specialist residential mortgages	**25,492**	24,806
Consumer banking	**3,519**	3,401
Commercial lending	**18,033**	18,958
Other loans	**201**	422
	162,909	158,174
Fair value adjustment for micro hedged risk	**954**	1,413
	163,863	159,587

Asset backed funding

Certain prime residential mortgages have been pledged to the Group's asset backed funding programmes. The programmes have enabled the Group to obtain secured funding or to create additional collateral which could be used to source additional funding. The mortgages pledged and the values of the notes in issue are as follows:

	30 September 2013 (Unaudited)				
		Notes in issue			
			Held by the Group		
	Mortgages pledged	Held by third parties	Drawn	Undrawn	Total
	£m	£m	£m	£m	£m
Covered bond programme	**21,809**	**11,271**	**-**	**4,500**	**15,771**
Securitisation programme	**25,120**	**7,348**	**1,250**	**12,291**	**20,889**
Whole mortgage loan pools	**4,578**	**-**	**3,426**	**1,152**	**4,578**
	51,507	**18,619**	**4,676**	**17,943**	**41,238**

	4 April 2013 (Audited)				
		Notes in issue			
			Held by the Group		
	Mortgages pledged	Held by third parties	Drawn	Undrawn	Total
	£m	£m	£m	£m	£m
Covered bond programme	21,856	11,376	-	4,500	15,876
Securitisation programme	24,994	7,606	1,250	12,291	21,147
Whole mortgage loan pools	4,891	-	3,490	1,401	4,891
	51,741	18,982	4,740	18,192	41,914

Mortgages pledged include £3.9 billion (4 April 2013: £3.6 billion) in the covered bond and securitisation programmes that are in excess of the amount contractually required to support notes in issue and which therefore provide capacity for further potential issuances.

There were no issuances under the Nationwide Covered Bond programme or the Silverstone Master Trust securitisation programme during the half year ended 30 September 2013 or during the year ended 4 April 2013. Also, there were no maturities of covered bond programme notes held by third parties during the half year (30 September 2012 £1.9 billion sterling equivalent of notes held by third parties matured).

The Society holds cash deposited by the covered bond programme of £1.6 billion (4 April 2013: £1.4 billion) and by the Silverstone programme of £3.0 billion (4 April 2013: £1.2 billion).

Details of the programmes and the accounting methodology are contained in note 17 of the 2013 Annual Report and Accounts.

12 Subordinated liabilities and subscribed capital

	30 September 2013 (Unaudited)	4 April 2013 (Audited)
	£m	*£m*
Subordinated liabilities		
Subordinated notes	**2,381**	2,426
Fair value adjustment for micro hedged risk	**71**	130
Unamortised premiums and issue costs	**(14)**	(16)
	2,438	2,540
Subscribed capital		
Permanent interest bearing shares	**582**	1,068
Fair value adjustment for micro hedged risk	**76**	270
Unamortised premiums and issue costs	**(27)**	(34)
	631	1,304

All of the Group's subordinated notes and permanent interest bearing shares (PIBS) are unsecured. The Group may redeem some of the subordinated notes early and the PIBS are repayable at the option of the Group; both require the prior consent of the PRA.

The subordinated notes rank pari passu with each other and behind claims against the Group of all depositors, creditors and investing members. The PIBS rank pari passu with each other and behind claims of the subordinated notes.

In September 2013, the Group, with the consent of the PRA, redeemed £485 million of PIBS. This resulted in a net gain of £124 million in other operating income.

13 Financial instruments – classification & measurement

This section should be read in conjunction with note 34 "Classification and Measurement" of the 2013 Annual Report and Accounts, which provides more detail about the accounting policy adopted, valuation methodologies used in calculating fair value and the valuation control framework which governs the oversight of valuations. Valuation methodologies have remained consistent with those applied in 2013 Annual Report and Accounts, except for in relation to loans and advances to customers as set out below.

Comparison of carrying amounts & fair values

The following table summarises the fair value of financial assets and liabilities measured at amortised cost on the Group's balance sheet.

	30 September 2013 (unaudited)		4 April 2013 (audited)	
	Carrying value	Fair value	Carrying value	Fair value
	£m	*£m*	*£m*	*£m*
Financial Assets				
Loans and advances to banks	**2,537**	**2,537**	2,522	2,522
Loans and advances to customers:				
Residential mortgages	**141,156**	**136,335**	135,393	130,871
Consumer banking	**3,519**	**3,604**	3,401	3,413
Commercial lending	**18,987**	**17,162**	20,371	20,752
Other lending	**201**	**201**	422	422
Financial Liabilities				
Shares	**130,951**	**131,073**	125,574	125,832
Deposits from banks	**3,265**	**3,268**	3,230	3,232
Other deposits(i)	**7,137**	**7,559**	6,747	7,130
Due to customers	**5,953**	**5,903**	5,960	5,962
Debt securities in issue	**31,761**	**32,481**	33,429	34,003
Subordinated liabilities	**2,438**	**2,529**	2,540	2,566
Subscribed capital	**631**	**631**	1,304	1,012

Note

(i) Other deposits include PEBS of £3,057 million (4 April 2013: £2,985 million) which are carried at fair value on the balance sheet.

Loans and advances to customers

In adopting the requirements of IFRS 13, Nationwide has reviewed and modified its approach to the fair value disclosures for financial assets and liabilities measured at amortised cost on the balance sheet in line with the guidance in the standard to reflect an exit price, valued on an asset by asset basis.

The change in relationship between carrying value and fair value of commercial lending solely reflects the change in valuation methodology as a result of the IFRS 13 guidance. IFRS 13 is not retrospective in application and we have not restated our position at 4 April 2013. Whilst we do not have all the data to restate prior periods on this basis, we have established that had this methodology been applied at 4 April 2013 the reported fair value would have been lower than reported and broadly consistent with the relationship between carrying value and fair value at 30 September 2013.

The estimated fair value of loans and advances to customers represents management's best estimate of an exit price, calculated by reference to discounted future cash flows. In estimating future cash flows under IFRS 13 we have taken into account the impact of incurred losses and in addition have included an element of future lifetime expected credit losses modelled on historic trends.

For commercial lending fixed rate loans, discount rates have been based on the expected funding and capital cost applicable to that book. For retail loans, estimated future cash flows are discounted at the currently available market standard variable interest rate.

Fair value hierarchy

IFRS 13 Fair Value Measurement requires an entity to classify its financial instruments held at fair value according to a hierarchy that reflects the significance of observable market inputs. The three levels of the fair value hierarchy are defined below:

Quoted market prices – Level 1

Financial instruments are classified as Level 1 if their value is observable in an active market. Such instruments are valued by reference to unadjusted quoted prices for identical assets or liabilities in active markets where the quoted price is readily available, and the price represents actual and regularly occurring market transactions on an arm's length basis. An active market is one in which transactions occur with sufficient volume and frequency to provide pricing information on an ongoing basis.

This category includes liquid government bonds actively traded through an exchange or clearing house, actively traded listed equities and actively exchange-traded derivatives.

Valuation technique using observable inputs – Level 2

Financial instruments classified as Level 2 have been valued using models whose inputs are observable in an active market. Valuations based on observable inputs include financial instruments such as swaps and forwards which are valued using market standard pricing techniques, and options that are commonly traded in markets where all the inputs to the market standard pricing models are observable.

This category can include most investment grade and liquid high yield bonds, asset backed securities, US agency securities, government bonds, less actively traded listed equities, bank, corporate and municipal obligations, OTC derivatives, convertible bonds, certificates of deposit, commercial paper, collateralised loan obligations (CLOs), most commodities based derivatives, credit derivatives, credit default swaps (CDSs), most fund units, loans, foreign exchange spot and forward transactions and issued notes.

Valuation technique using significant unobservable inputs – Level 3

Financial instruments are classified as Level 3 if their valuation incorporates significant inputs that are not based on observable market data (unobservable inputs). A valuation input is considered observable if it can be directly observed from transactions in an active market, or if there is compelling external evidence demonstrating an executable exit price. An input is deemed significant if it is shown to contribute more than 10% to the valuation of a financial instrument.

Unobservable input levels are generally determined based on observable inputs of a similar nature, historical observations or other analytical techniques. The Level 3 category includes certain corporate debt securities, distressed debt, private equity investments, commercial real estate loans, certain OTC derivatives (requiring complex and unobservable inputs such as correlations and long dated volatilities), certain convertible bonds, certain CDSs, derivative exposures to monoline insurers, certain fund units, certain asset backed securities, certain issued notes, certain CDOs (synthetic and some cash underlyings), certain CLOs and certain loans.

Transfers between fair value hierarchies

Instruments move between fair value hierarchies primarily due to increases or decreases in market activity or the observability of significant inputs to valuation. Financial instruments are classified as Level 3 if their valuation incorporates significant inputs that are not based on observable market data (i.e. it uses unobservable inputs). A valuation input is considered observable if it can be directly observed from transactions in an active market, or if there is compelling external evidence demonstrating an executable exit price. An input is deemed significant if it is shown to contribute more than 10% to the valuation of a financial instrument.

There were no significant transfers between Levels 1 and 2 during the period.

During the period there were transfers from Level 2 to Level 3 in respect of investments where market prices were no longer available and derivatives where the valuation comprised significant unobservable inputs.

Fair value measurement

The following table shows the Group's financial assets and liabilities that are held at fair value disaggregated by fair value hierarchy and balance sheet classification.

	Valuations based on			
30 September 2013	**Quoted market prices (Level 1)**	**Observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**	**Total**
(Unaudited)	*£m*	*£m*	*£m*	*£m*
Financial assets				
Investment securities – AFS	**7,637**	**3,507**	**81**	**11,225**
Investments in equity shares	**-**	**-**	**28**	**28**
Derivative financial instruments	**-**	**2,963**	**476**	**3,439**
Other financial assets	**-**	**2**	**-**	**2**
	7,637	**6,472**	**585**	**14,694**
Financial liabilities				
Derivative financial instruments	**-**	**(2,781)**	**-**	**(2,781)**
Other deposits – PEBs	**-**	**-**	**(3,057)**	**(3,057)**
Other financial liabilities	**-**	**(7)**	**-**	**(7)**
	-	**(2,788)**	**(3,057)**	**(5,845)**

	Valuations based on			
4 April 2013	**Quoted market prices (Level 1)**	**Observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**	**Total**
(Audited)	*£m*	*£m*	*£m*	*£m*
Financial assets				
Investment securities – AFS	8,641	4,720	60	13,421
Investments in equity shares	-	-	28	28
Derivative financial instruments	-	3,828	384	4,212
Other financial assets	-	8	-	8
	8,641	8,556	472	17,669
Financial liabilities				
Derivative financial instruments	-	(3,875)	(10)	(3,885)
Other deposits – PEBs	-	-	(2,985)	(2,985)
	-	(3,875)	(2,995)	(6,870)

Detail of product types within fair value hierarchies

The following tables show the Group's financial assets and liabilities that are held at fair value disaggregated by fair value hierarchy and product type:

30 September 2013	Quoted market prices (Level 1)	Observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
(Unaudited)	*£m*	*£m*	*£m*	*£m*
Financial assets				
Government & supranational investment securities	**7,637**	**-**	**-**	**7,637**
Listed private sector investment securities	**-**	**3,507**	**81**	**3,588**
Interest rate swaps	**-**	**1,391**	**-**	**1,391**
Cross currency interest rate swaps	**-**	**1,011**	**-**	**1,011**
Caps, collars & floors	**-**	**1**	**-**	**1**
Interest rate & equity index swaps	**-**	**560**	**476**	**1,036**
Investments in equity shares	**-**	**-**	**28**	**28**
Other	**-**	**2**	**-**	**2**
Total	**7,637**	**6,472**	**585**	**14,694**

30 September 2013	Quoted market prices (Level 1)	Observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
(Unaudited)	*£m*	*£m*	*£m*	*£m*
Financial liabilities				
Interest rate swaps	**-**	**(2,245)**	**-**	**(2,245)**
Cross currency interest rate swaps	**-**	**(231)**	**-**	**(231)**
Forward foreign exchange	**-**	**(260)**	**-**	**(260)**
Swaptions	**-**	**(14)**	**-**	**(14)**
Other	**-**	**(7)**	**-**	**(7)**
Interest rate & equity index swaps	**-**	**(31)**	**-**	**(31)**
Other deposits – PEBs	**-**	**-**	**(3,057)**	**(3,057)**
Total	**-**	**(2,788)**	**(3,057)**	**(5,845)**

4 April 2013	Quoted market prices (Level 1)	Observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
(Unaudited)	*£m*	*£m*	*£m*	*£m*
Financial assets				
Government & supranational investment securities	8,641	343	-	8,984
Listed private sector investment securities	-	4,377	60	4,437
Interest rate swaps	-	1,792	-	1,792
Cross currency interest rate swaps	-	1,150	-	1,150
Forward foreign exchange	-	152	-	152
Swaptions	-	2	-	2
Other	-	8	-	8
Interest rate & equity index swaps	-	732	384	1,116
Investments in equity shares	-	-	28	28
Total	8,641	8,556	472	17,669

4 April 2013	Quoted market prices (Level 1)	Observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
(Unaudited)	*£m*	*£m*	*£m*	*£m*
Financial liabilities				
Interest rate swaps	-	(3,680)	-	(3,680)
Cross currency interest rate swaps	-	(90)	-	(90)
Caps, collars & floors	-	(1)	-	(1)
Forward foreign exchange	-	(22)	-	(22)
Swaptions	-	(27)	-	(27)
Interest rate & equity index swaps	-	(55)	(10)	(65)
Other deposits – PEBs	-	-	(2,985)	(2,985)
Total	-	(3,875)	(2,995)	(6,870)

NOTES TO THE INTERIM FINANCIAL INFORMATION (continued)

Movements in level 3 portfolio

(Unaudited)	**Investment securities – AFS**	**Investments in equity shares**	**Net derivative financial instruments**	**Other deposits – PEBs**
	£m	*£m*	*£m*	*£m*
At 5 April 2013	60	28	374	(2,985)
(Losses)/gains recognised in the income statement:				
Net interest expense	**-**	**-**	**(17)**	**(4)**
Gains/(losses) from derivatives and hedge accounting	**-**	**-**	**101**	**(102)**
Gain recognised in other comprehensive income – fair value movement taken to equity	**2**	**-**	**-**	**-**
Settlements	**(3)**	**-**	**18**	**34**
Transfers into level 3 portfolio	**23**	**-**	**-**	**-**
Transfers out of level 3 portfolio	**(1)**	**-**	**-**	**-**
At 30 September 2013	**81**	**28**	**476**	**(3,057)**

(Unaudited)	**Investment securities – AFS**	**Investments in equity shares**	**Net derivative financial instruments**	**Other deposits – PEBs**
	£m	*£m*	*£m*	*£m*
At 5 April 2012	76	20	197	(2,890)
(Losses)/gains recognised in the income statement:				
Net interest expense	-	-	(29)	-
Gains/(losses) from derivatives and hedge accounting	-	-	59	(62)
Impairment losses on investment securities	(23)	-	-	-
Gain recognised in other comprehensive income – fair value movement taken to equity	9	2	-	-
Settlements	-	-	31	35
Transfers into level 3 portfolio	17	-	-	-
At 30 September 2012	79	22	258	(2,917)

Sensitivity analysis of valuations using unobservable inputs

As discussed above, the fair value of financial instruments is, in certain circumstances, measured using valuation techniques based on market prices that are not in an active market or significant unobservable market inputs.

Reasonable alternative assumptions can be applied for sensitivity analysis, taking account of the nature of valuation techniques used, as well as the availability and reliability of observable proxy and historic data. The following table shows the sensitivity of these fair values to reasonable alternative assumptions:

At 30 September 2013	**Fair value**	**Favourable changes to assumptions**	**Unfavourable changes to assumptions**
(Unaudited)	*£m*	*£m*	*£m*
Investment securities – AFS;			
Collateralised debt obligations	69	13	(16)
Other investment securities	12	-	-
Investments in equity shares	28	2	(3)
Derivative financial instruments	476	-	-
	585	**15**	**(19)**
Increases/(decreases) in fair value would be recognised in:			
Income statement		5	(3)
Statement of other comprehensive income (accumulated in AFS reserve)		10	(16)
		15	(19)

At 4 April 2013	**Fair value**	**Favourable changes to assumptions**	**Unfavourable changes to assumptions**
(Audited)	*£m*	*£m*	*£m*
Investment securities – AFS:			
Collateralised debt obligations	60	15	(11)
Investments in equity shares	28	-	(7)
Derivative financial instruments	384	-	-
	472	15	(18)
Increases/(decreases) in fair value would be recognised in:			
Income statement		5	(2)
Statement of other comprehensive income (accumulated in AFS reserve)		10	(16)
Total		15	(18)

Note:
(i) Any changes in fair values of the PEB deposits would be offset by an equal and opposite change in the fair values of the associated PEB derivative financial instruments; hence PEB deposits are excluded from the above tables.

The scenarios applied are considered for each product and varied according to the quality of the data and variability of the underlying market.

Investment securities – AFS

Collateralised debt obligations

Sensitivities on these assets, where there are no alternative pricing sources, have been calculated by applying a range of probable scenarios against our current valuation process, resulting in a range of possible prices.

Other investment securities

Scenarios reflect prices seen in these holdings in the preceding six months.

Investments in equity shares

Scenarios reflect prices seen in these holdings in the preceding six months.

Significant unobservable inputs

The following table discloses the valuation techniques and significant unobservable inputs for assets and liabilities recognised at fair value and classified as level 3 along with the range of values for those significant unobservable inputs.

At 30 September 2013	Total assets	Total liabilities	Valuation techniques	Significant unobservable inputs	Range Min	Range Max	Weighted average Note (iv)	Units Note (i)
(Unaudited)	*£m*	*£m*						
Derivative financial instruments								
Other derivatives, interest rate & equity index swaps	**476**	**-**	Note (ii)					
	476	**-**						
Non derivative financial instruments								
Investments in securities – AFS	**58**	**-**	Discounted cash flows	Conditional prepayment rate	9.84	29.51	19.67	%
				Loss given default	25.98	77.95	51.97	%
				Probability of default	8.07	23.82	16.14	%
				Credit spread	125	375	250	Bps
	23	**-**	Mark to market	Price	78.93	88.46	83.84	Points
	81	**-**						
Investments in equities	**28**	**-**	Mark to market	Price	83.00	105.0	97.0	Points
Other deposits – PEBs......	**-**	**(3,057)**	Note (iii)					

Notes

(i) The units used to disclose ranges for significant unobservable inputs are percentages, points and basis points (bps). Points are a percentage of par; for example 100 points equals 100% of par. One basis point (bps) equals 0.01% for example, 125 basis points (bps) equals 1.25%.
(ii) Any change in fair values of the interest rate & equity index swaps derivative financial instrument will be offset by the change in fair value of the PEB deposit. Any resultant impact is deemed by the Group to be insignificant so these items have therefore been excluded from the table above.
(iii) Any change in fair values of the PEB deposit will be offset by the change in fair value of the interest rate & equity index swaps derivative instruments.
(iv) The 'Weighted Average' figure provided represents the input values used in calculating the fair values for the above financial instruments.

The significant unobservable inputs identified in the table above are described in the following section, which also details the sensitivity of fair value measurement of the instruments categorised as level 3 assets or liabilities to increases in significant unobservable inputs. Where sensitivities are described the inverse relationship will also generally apply.

Some of the significant unobservable inputs used in fair value measurement are interdependent. Where this is the case, a description of those interrelationships is included below.

Conditional prepayment rate

For asset backed securities where the borrower is able to prepay all or part of a loan before the contractual repayment date, the conditional prepayment rate will affect the fair value by altering the timing of future projected cash flows.

The effect of a significant increase in conditional prepayment rate on fair value could be favourable or unfavourable, depending on the specific terms of the instrument. Conditional prepayment rates are typically inversely correlated to credit spread. For example, securities with high borrower credit spread typically experience lower prepayment rates, and also tend to experience higher default rates.

Loss given default

Loss given default represents the expected loss upon liquidation of the collateral as a percentage of the balance outstanding. In general, lower recovery and lower projected cash flows will translate to a significant increase in the loss given default, resulting in a reduction in fair value that is unfavourable for the holder of the securitised product.

Probability of default

The probability of default represents an annualised rate of default of the loan principal by the borrower. A significant increase in a probability of default in isolation will typically result in a movement in fair value that is unfavourable.

Probability of default and conditional prepayment rates are typically inversely correlated; lower defaults on loans typically will mean higher credit quality and therefore more prepayments.

Credit spread

The more perceived credit risk there is, the higher the yield will be demanded for the instrument. This is reflected in the credit spread which typically represents the difference in yield between an instrument and a benchmark security or reference rate. The credit spread for an instrument forms part of the yield used in a discounted cash flow calculation. In general a significant increase in credit spread in isolation will result in a movement in fair value that is unfavourable for the holder of a cash instrument.

For a derivative instrument, a significant increase in credit spread in isolation can result in a movement in fair value that is favourable or unfavourable depending on the specific terms of the instrument.

Price

Prices for securities that are marked to market, where the market is illiquid and supporting price information is scarce are typically subject to significant uncertainty. An increase in the price will directly cause an increase in fair value and vice versa.

14 Offsetting financial assets & financial liabilities

The Group has financial assets and liabilities for which there is a legally enforceable right to set off the recognised amounts, but for which there is no intention to settle on a net basis or to realise the asset and liabilities simultaneously (the offset criteria). Therefore, in accordance with IAS 32 Financial Instruments: Presentation, there are no financial assets or liabilities which are offset with the net amount presented on the balance sheet. All financial assets and liabilities are presented on a gross basis on the balance sheet.

In accordance with IFRS 7 Financial Instruments: Presentation, the following table shows the impact on derivative financial instruments, total return swaps, reverse repurchase agreements and repurchase agreements relating to transactions where:

- There is an enforceable master netting arrangement or similar agreement in place but the offset criteria are otherwise not satisfied, and
- Financial collateral is paid and received.

Master netting arrangements consist of agreements such as an ISDA Master Agreement, global master repurchase agreements and global master securities lending agreements, whereby outstanding transactions with the same counterparty can be offset and settled net following a default or other predetermined event.

Financial collateral on derivative financial instruments consists of cash and securities settled, typically daily or weekly, to mitigate the mark to market exposures. Financial collateral on total return swaps, repurchase agreements and reverse repurchase agreements typically comprises highly liquid securities which are legally transferred and can be liquidated in the event of counterparty default.

The 'Net amounts after offsetting under IFRS 7' presented below show the exposure to counterparty credit risk for derivative contracts after netting benefits and collateral, and are not intended to represent the Group's actual exposure to credit risk. This is due to a variety of credit mitigation strategies which are employed in addition to netting and collateral arrangements. These credit mitigation strategies are discussed further in the Treasury Credit Risk section of the Risk Management Report.

At 30 September 2013	**Gross and net amounts reported on the balance sheet**	**Master netting arrangements**	**Financial collateral**	**Net amounts after offsetting under IFRS 7**
(Unaudited)	*£m*	*£m*	*£m*	*£m*
Financial assets				
Derivative financial instruments	3,439	(1,462)	(1,629)	348
Total return swaps	149	-	(149)	-
Total assets	3,588	(1,462)	(1,778)	348
Financial liabilities				
Derivative financial liabilities	2,781	(1,462)	(1,225)	94
Repurchase agreements	1,005	-	(1,005)	-
Total liabilities	3,786	(1,462)	(2,230)	94

4 April 2013	**Gross and net amounts reported on the balance sheet**	**Master netting arrangements**	**Financial collateral**	**Net amounts after offsetting under IFRS 7**
(Unaudited)	*£m*	*£m*	*£m*	*£m*
Financial assets				
Derivative financial instruments	4,212	(2,208)	(1,631)	373
Total return swaps	149	-	(149)	-
Total assets	4,361	(2,208)	(1,780)	373
Financial liabilities				
Derivative financial liabilities	3,885	(2,208)	(1,559)	118
Repurchase agreements	1,207	-	(1,207)	-
Total liabilities	5,092	(2,208)	(2,766)	118

15 Notes to the cash flow statement

	Half year to 30 September 2013 (Unaudited)	Half year to 30 September 2012* (Unaudited)
	£m	£m
Non-cash items included in profit before tax		
Net increase in impairment provisions	**146**	242
Net decrease in provisions for liabilities and charges	**(73)**	(44)
Impairment losses on investment securities	**1**	23
Depreciation and amortisation	**133**	97
Interest on subordinated liabilities	**65**	46
Interest on subscribed capital	**36**	47
Profit on the sale of investments	**-**	(7)
Losses from derivatives and hedge accounting	**16**	14
	324	418
Changes in operating assets		
Loans and advances to banks	**(119)**	3
Investment securities	**636**	(426)
Derivative financial instruments and fair value adjustment for portfolio hedged risk	**1,266**	377
Deferred tax assets	**18**	(29)
Loans and advances to customers	**(4,422)**	(3,239)
Other operating assets	**40**	22
	(2,581)	(3,292)
Changes in operating liabilities		
Shares	**5,377**	(510)
Deposits from banks, customers and others	**418**	1,214
Derivative financial liabilities and fair value adjustment for portfolio hedged risk	**(1,177)**	278
Debt securities in issue	**(1,668)**	(4,224)
Deferred tax liabilities	**(2)**	(3)
Retirement benefit obligations	**186**	163
Other operating liabilities	**(196)**	159
	2,938	(2,923)
Cash and cash equivalents		
Cash	**9,737**	8,505
Loans and advances to banks repayable in 3 months or less	**2,085**	2,981
	11,822	11,486

* Comparatives have been restated in accordance with IAS 19 (Revised). Refer to note 2 for further details.

Changes in other operating liabilities include movements in the Group's wholesale funding balances of deposits from banks, other deposits and debt securities in issue. These are considered operating activities as they relate to the Group's lending activity and liquidity management and so form part of the normal course of business. Movements in subordinated liabilities and subscribed capital are considered financing activities because these form part of the Group's capital management for solvency purposes.

The Group is required to maintain balances with the Bank of England which, at 30 September 2013, amounted to £304 million (30 September 2012: £189 million). These balances are included within loans and advances to banks on the balance sheet and are not included in the cash and cash equivalents in the cash flow statement as they are not liquid in nature.

16 Operating segments

For management reporting purposes, the Group is organised into the following business groupings, determined according to similar economic characteristics and customer base:

- Retail
- Commercial
- Head office functions.

Details of the operating segments and the funds transfer pricing methodology are contained in note 13 of the 2013 Annual Report and Accounts. The comparative results for the half year to 30 September 2012 have been restated in order to align presentation with the current period updating the funding costs to reflect a change in capital allocation methodology. In addition, the comparative results are restated for the impact of IAS 19 (Revised) as explained in note 2 above.

The Group operates predominantly in the UK with a small level of operations in the Isle of Man and the Republic of Ireland and accordingly no geographical analysis has been presented.

Half year to 30 September 2013 (Unaudited)		**Retail**	**Commercial**	**Head office functions**	**Total**
	Notes	*£m*	*£m*	*£m*	*£m*
Net interest income/(expense) from external customers		**1,315**	**348**	**(579)**	**1,084**
(Charge)/revenue from other segments		**(115)**	**(287)**	**402**	**-**
Net interest income		**1,200**	**61**	**(177)**	**1,084**
Other income	(i)	**170**	**9**	**124**	**303**
Total revenue		**1,370**	**70**	**(53)**	**1,387**
Expenses	(ii)	**(683)**	**(27)**	**(22)**	**(732)**
Impairment and other provisions	(iii)	**(95)**	**(225)**	**(3)**	**(323)**
Underlying profit/(loss) before tax		**592**	**(182)**	**(78)**	**332**
Restructuring costs		**-**	**-**	**(35)**	**(35)**
Bank levy		**-**	**-**	**(11)**	**(11)**
Losses from derivatives and hedge accounting		**-**	**-**	**(16)**	**(16)**
Profit/(loss) before tax		**592**	**(182)**	**(140)**	**270**
Taxation					**(36)**
Profit after tax					**234**

30 September 2013 (Unaudited)		**Retail**	**Commercial**	**Head office functions**	**Total**
	Notes	*£m*	*£m*	*£m*	*£m*
Total assets	(iv)	**144,687**	**18,987**	**29,658**	**193,332**
Total liabilities		**136,406**	**817**	**49,362**	**186,585**

Notes

(i) Other income excludes losses from derivatives and hedge accounting.

(ii) Expenses exclude restructuring costs and bank levy which are shown separately. The restructuring costs of £35 million comprise £31 million included in administrative expenses together with £4 million included in the depreciation and amortisation charge in the income statement.

(iii) Impairment and other provisions includes impairment losses on loans and advances to customers, provisions for liabilities and charges (excluding FSCS) and impairment losses on investment securities.

(iv) Retail assets include goodwill arising on the acquisition of The Mortgage Works (UK) plc and the Derbyshire Building Society.

Half year to 30 September 2012 (Unaudited)		**Retail**	**Commercial**	**Head office functions**	**Total***
	Notes	*£m*	*£m*	*£m*	*£m*
Net interest income/(expense) from external customers		1,077	408	(595)	890
(Charge)/revenue from other segments		(304)	(382)	686	-
Net interest income		773	26	91	890
Other income	(i)	205	10	8	223
Total revenue		978	36	99	1,113
Expenses	(ii)	(618)	(24)	(15)	(657)
Impairment and other provisions	(iii)	(109)	(193)	(24)	(326)
Underlying profit/(loss) before tax		251	(181)	60	130
FSCS levies		6	-	-	6
Restructuring costs		(7)	-	(4)	(11)
Bank levy		-	-	(8)	(8)
Losses from derivatives and hedge accounting		-	-	(14)	(14)
Profit/(loss) before tax		250	(181)	34	103
Taxation					17
Profit after tax					120

* Comparatives have been restated in accordance with IAS 19 (Revised). Refer to note 2 for further details.

4 April 2013 (Audited)		**Retail**	**Commercial**	**Head office functions**	**Total**
	Notes	*£m*	*£m*	*£m*	*£m*
Total assets	(iv)	138,810	20,371	31,537	190,718
Total liabilities		131,184	526	52,428	184,138

17 Related party transactions

Full details of the Group's related party transactions for the year to 4 April 2013 can be found in note 35 of the 2013 Annual Report and Accounts. There have been no significant related party transactions in the six months to 30 September 2013. Loans to key management personnel, undertaken on normal commercial terms, were £0.8 million (4 April 2013: £0.8 million).

RESPONSIBILITY STATEMENT

The directors confirm that, to the best of their knowledge, the condensed consolidated interim financial information has been prepared in accordance with IAS 34 as adopted by the European Union. The interim results include a fair review of the information required by DTR 4.2.7R and DTR 4.2.8R namely:

- an indication of important events that have occurred in the first six months of the financial year and their impact on the condensed consolidated interim financial information and a description of the principal risks and uncertainties for the remaining six months of the financial year; and

- material related party transactions in the first six months and any material changes in the related party transactions described in the 2013 Annual Report and Accounts.

A full list of the Board of Directors can be found in the 2013 Annual Report and Accounts. There have been no appointments or retirements from the Board during the six months to 30 September 2013.

Signed on behalf of the Board by
Mark Rennison
Group Finance Director
14 November 2013

INDEPENDENT REVIEW REPORT

Independent Review Report to Nationwide Building Society ('the Society')

Introduction

We have been engaged by the Society to review the condensed consolidated interim financial information in the interim results for the six months ended 30 September 2013, which comprises the condensed consolidated income statement, condensed consolidated statement of comprehensive income, condensed consolidated balance sheet, condensed consolidated statement of movements in members' interests, condensed consolidated cash flow statement and related notes**.** We have read the other information contained in the interim results and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed consolidated interim financial information.

Directors' responsibilities

The interim results are the responsibility of, and have been approved by, the directors. The directors are responsible for preparing the interim results in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

As disclosed in Note 2, the annual financial statements of the Group are prepared in accordance with IFRSs as adopted by the European Union. The condensed set of consolidated interim financial information included in these interim results has been prepared in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union.

Our responsibility

Our responsibility is to express to the Society a conclusion on the condensed consolidated interim financial information in the interim results based on our review. This report, including the conclusion, has been prepared for and only for the Society for the purpose of the Disclosure and Transparency Rules of the Financial Conduct Authority and for no other purpose. We do not, in producing this report, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated interim financial information in the interim results for the six months ended 30 September 2013 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

PricewaterhouseCoopers LLP
Chartered Accountants
London
14 November 2013

PART XIX – SUPERVISION AND REGULATION

1. EUROPEAN UNION LEGISLATION

The framework for supervision and regulation of banking and financial services in the UK has been, and continues to be, heavily influenced by European Union legislation. In March 2000, the adoption by the European Union of the Banking Consolidation Directive and Capital Adequacy Directive (as recast in July 2006 and subsequently amended, together commonly referred to as the **Capital Requirements Directive**) resulted in the consolidation of the main pan-European banking legislation into a single directive. The principal intention underlying the Banking Consolidation Directive was the harmonisation of banking regulation and supervision throughout the European Union and Norway, Iceland and Liechtenstein, commonly known as the European Economic Area (the **EEA**). The Banking Consolidation Directive prescribes minimum standards in key areas and requires EEA Member States to give "mutual recognition" to each other's standards of regulation. The Banking Consolidation Directive establishes the "passport" concept, which amounts to freedom for a credit institution authorised in its "home" state to establish branches in, and to provide cross-border services into, other EEA Member States.

Although credit institutions are primarily regulated in their home state by a local prudential regulator, the Banking Consolidation Directive prescribes minimum criteria for regulation of the authorisation of credit institutions and the prudential supervision applicable to them. The local prudential regulator in the UK for banks and building societies is the PRA. For further information about regulation in the UK see paragraph 2 "*UK regulation*" below. Investment firms and other similar institutions that engage in the provision of services relating to securities, derivatives and other similar instruments are subject to a similar regulatory environment and can obtain a passport under the EU Markets in Financial Instruments Directive (Directive (2004/39/EC)). The Markets in Financial Instruments Directive, among other things, is designed to create a single European market in financial services. On 20 October 2011, the European Commission published a proposal for a revised version of the Markets in Financial Instruments Directive, which aims to introduce, among other things, requirements to enhance market transparency, increase regulatory oversight of certain markets and introduce stricter investor protection rules.

European Union legislation transposing the revised Basel Accord (known as the Basel II Framework), through the recast Capital Requirements Directive, was partially implemented at the start of 2007, with more advanced techniques in relation to the calculation of capital requirements for credit risk and operational risk implemented at the start of 2008. The Capital Requirements Directive has since been amended by Directive 2009/111/EC dated 16 September 2009 (known as **CRD II**). CRD II was implemented in the UK on 31 December 2010. CRD II included changes to the criteria for hybrid tier 1 capital, the control of large exposures and requirements relating to securitisation transactions. The requirements for hybrid capital to count as non-Core Tier 1 capital were toughened, as were the relative permissible proportions of core, non-core and innovative tier 1 capital. However, CRD II provided for a certain proportion of existing instruments that do not comply with the new rules to continue to count as capital for a long transitional period. The Capital Requirements Directive was further amended by Directive 2010/76/EU dated 24 November 2010 (known as **CRD III**), which further tightened the capital requirements for trading books and securitisations in accordance with the recommendations of the Basel Committee to amend the Basel II framework. CRD III entered into force on 15 December 2010 and, following its implementation, the last of its provisions came into force in the UK on 16 April 2012.

The Basel Committee subsequently approved significant changes to the Basel II framework in 2011 to 2013 (such changes being commonly referred to as **Basel III**), including new capital and liquidity requirements intended to reinforce capital standards with heightened requirements for global systemically important banks and to establish minimum liquidity standards for credit institutions. In particular, the changes refer to, amongst other things, new requirements for the capital base, measures to strengthen the capital requirements for counterparty credit exposures arising from certain transactions and the introduction of a leverage ratio as well as short-term and longer-term standards for funding liquidity (referred to respectively as the Liquidity Coverage Ratio and the Net Stable Funding Ratio). The Basel Committee intends that member countries will implement the new capital standards and the new Liquidity Coverage Ratio as soon as possible (with provisions for phased implementation, meaning that the measures will not apply in full until January 2019), and the Net Stable Funding Ratio from January 2018. The European Commission published corresponding proposals to implement Basel III through replacing the existing Capital Requirements Directive with a Capital Requirements Regulation and an associated Capital Requirements Directive (known as **CRD IV**) on 20 July 2011. The CRD IV draft legislation was approved by the European Council on 21 June 2013.

CRD IV substantially reflects the Basel III capital and liquidity standards. Certain details remain to be clarified in further binding technical standards to be issued by the European Banking Authority (the **EBA**). The legislation will enter into force from January 2014, with full implementation by January 2019; however the proposals allow individual Member States to implement the stricter requirements of contributing instruments and/or level of capital more quickly than is envisaged under Basel III.

The Capital Requirement Regulation gives express recognition for Common Equity Tier 1 capital instruments for mutuals and co-operatives and permits the use of a cap or restriction to safeguard the interests of members and reserves.

In April 2008, the European Parliament and the Council of the European Union adopted a second directive on consumer credit (Directive 2008/48/EC) which provides that, subject to exemptions, loans not exceeding €75,000 will be regulated. This directive repealed and replaced the first consumer credit directive and required Member States to implement the directive by 11 June 2010. Loan agreements secured by land mortgage are exempted from the consumer credit directives. In March 2011, the European Commission published a proposal for a directive on credit agreements relating to residential immovable property for consumers. The proposal is to some extent modelled on the second directive on consumer credit and requires, among other things, standard pre-contractual information, calculation of the annual percentage rate of charge in accordance with a prescribed formula, and a right of the borrower to make early repayment. Until the final form of the proposed directive and UK implementing legislation are published, it is not certain what effect the adoption and implementation of the proposed directive would have on Nationwide's mortgage businesses.

2. UK REGULATION

Under the Financial Services Act 2012, a range of structural reforms to UK financial regulatory bodies were implemented, with the Financial Services Authority (the **FSA**) being replaced from 1 April 2013 by the following bodies:

- the Financial Policy Committee, a part of the Bank of England which is responsible for macro-prudential regulation, or regulation of stability and resilience of the financial system as a whole;
- the Prudential Regulation Authority (the **PRA**), an independent subsidiary of the Bank of England, which is responsible for micro-prudential regulation of financial institutions that manage significant risks on their balance sheets; and
- the Financial Conduct Authority (the **FCA)**, which has responsibility for conduct of business and markets regulation. The FCA also represents the UK's interests in markets regulation at the European Securities and Markets Authority.

See "*Future legislative and regulatory changes could impose operational restrictions on Nationwide, cause Nationwide to raise further capital, increase Nationwide's expenses and/or otherwise adversely affect its business, results, financial condition or prospects*" under "*Part II: Risk factors*".

The Financial Services Act 2012 also gave the Government powers to transfer the regulation of consumer credit (which includes new and existing second charge mortgages) from the Office of Fair Trading (**OFT**) to the FCA. This transfer is scheduled for 1 April 2014. The related secondary legislation was enacted in July 2013. Under the Financial Services Act 2012, the FCA may make rules under which, and from dates to be specified:

- carrying on certain credit-related activities (including in relation to servicing credit agreements) otherwise than in accordance with permission from the FCA will render the credit agreement unenforceable without FCA approval; and
- the FCA will have power to render unenforceable contracts made in contravention of its rules on cost and duration of credit agreements or in contravention of its product intervention rules.

The Financial Services Act 2012 also provides for formatted cooperation to exist between the FCA and the Financial Ombudsman Service (discussed below) particularly where issues identified potentially have wider implications with a view to the FCA requiring firms to operate consumer redress schemes.

Another area of change which impacts on the UK regulatory landscape relates to the proposals for banking reform. On 14 June 2012, HM Treasury issued a white paper ("Banking reform: delivering stability and supporting a sustainable economy") on how the Government intends to implement the measures recommended by Sir John Vicker's Independent Commission on Banking final report of 12 September 2011. Broadly, the white paper covers the following areas: the ring-fencing of vital banking services from international and investment banking services; measures on loss absorbency and depositor preference; and proposals for enhancing competition in the banking sector. The Government has published the Financial Services (Banking Reform) Bill (the **Banking Reform Bill**) and, in line with the proposals in the white paper, has decided to carve building societies out of the proposed ring-fencing legislation. On 17 July 2013, the Government announced that it does not propose to make any changes to the Act at this stage to bring building societies legislation into line with the proposed ring-fencing requirements for banks but it will keep this under review. Paragraph 2.1 "*The UK Building Societies Act*" below refers to the discussion document published by HM Treasury in 2012 which sets out the Government's vision for the building societies sector. The Government intends the Banking Reform Bill to receive Royal Assent by February 2014 and all relevant secondary legislation to be completed by May 2015.

2.1 The UK Building Societies Act

The main legislation regulating building societies is the UK Building Societies Act 1986, as amended (the **Act**). The Act governs the creation, authorisation and management of building societies. Prior to 1 December 2001, it also established the Building Societies Commission as the primary body responsible for regulating building societies. On 1 December 2001, the role of the Building Societies Commission as the Society's primary regulator was taken over by the FSA pursuant to the ongoing reorganisation of the regulation of the UK financial services industry. With the introduction of the FSMA certain sections of the Act were repealed. However, a substantial part of the Act, including the constitutional parts dealing with the principal purpose of building societies, funding and lending limits and general governance, among others, still remain in force. The Act has been amended and supplemented since its introduction by secondary legislation. For further information on the reforms under the Financial Services and Markets Act 2000, see paragraph 2.2 "*Financial Services and Markets Act 2000*" below. Since 1 April 2013, the Society is now dual regulated, by the FCA in relation to conduct of business matters and by the PRA in relation to prudential requirements.

On 6 July 2012, HM Treasury published a discussion document entitled: "The future of building societies" which sets out the Government's aim to maintain the distinctiveness of the building society sector while creating a level playing field and removing unnecessary barriers to growth. The Government intends to amend the Act to widen the opportunities for building societies without compromising their mutuality. The discussion document also referred to aligning the ring-fencing provisions with those applying to ring-fenced banks but on 17 July 2013 the Government announced that it did not propose to make any changes to the Act at this stage but it would keep this under review. The Government states that the loss absorbency proposals set out in the white paper of June 2012 on banking reform will apply to building societies as they apply to banks of a similar profile. As part of its commitment to foster diversity in the financial sector, the Government invited suggestions for reviewing those parts of the Act which restrict societies, where this is in accordance with maintaining their distinctiveness. In October 2013, the Government published amendments to the Banking Reform Bill which will make modernising changes to the Act to bring it more in line with company law, assist building societies in raising funding and make minor technical changes in order to allow the building society sector to compete on a more level playing-field with banks. The proposed changes, in particular, would:

- facilitate electronic communications with members;
- remove the restrictions on building societies relating to floating charges;
- make it easier for building societies to accept small business deposits by making adjustments to the funding limit calculation;

- make certain changes concerning the distribution of shares on the transfer of a building society's business on a demutualisation; and

- permit holders of deferred shares of less than two years standing to be eligible to receive shares or cash when a society demutualises (thereby removing the risk that tier 1 capital would be downgraded to tier 2 capital in the event of such a demutualisation). It should be noted that the risk alluded to in relation to any such downgrade is addressed in relation to CCDS by ensuring that CCDS will be represented by a global certificate which will be registered in the name of the Nominee for the Clearing Systems.

It is anticipated that the changes to be introduced under the Banking Reform Bill affecting building societies will come into force automatically two months after the Banking Reform Bill receives Royal Assent except for the provision relating to floating charges which will be commenced by a separate order.

Further changes to be introduced under the Banking Reform Bill concern depositor preference. The Banking Reform Bill will amend the Insolvency Act 1986 to provide that deposits that are eligible for protection under the Financial Services Compensation Scheme are to be preferential debts which would rank ahead of claims of other unsecured creditors upon an insolvency. It is expected that these provisions will apply to building societies and that before this takes effect changes will be made to the building societies legislation to align creditor hierarchies with those of banks. Currently, building society shareholding members rank behind unsubordinated creditors on a winding-up or dissolution of a building society. The Government has stated that it is intended to achieve this alignment using its powers under section 2 of the Building Societies (Funding) and Mutual Societies (Transfers) Act 2007 (known as the "Butterfill Act") to do this. This will be done by the passing of a statutory instrument following the approval by a resolution of each House of Parliament and will have the effect that building society shareholding members (other than holders of deferred shares) will rank alongside unsubordinated creditors on a winding-up or dissolution.

In October 2013, the Government announced that it would also be appropriate to commence these powers in the Butterfill Act, to bring the creditor hierarchy for building societies in line with banks, for the purposes of the proposed new bail-in powers. The Banking Reform Bill will introduce a bail-in tool by amending the Banking Act 2009 for the purposes of introducing a new stabilisation option – the bail-in option. The Bank of England will be able to invoke this power in respect of failing banks or building societies as an alternative to insolvency. Bail-in involves shareholders of a failing bank being divested of their shares, and creditors of the bank having their claims cancelled or reduced to the extent necessary to restore the bank to financial viability. Certain liabilities are excluded from bail-in, including deposits covered by the Financial Services Compensation Scheme. CCDS would not be excluded and would be subject to the bail-in powers. See "*Risks related to Nationwide's business – The value of the CCDS may be materially adversely affected by any UK bail-in power*" under "*Part II: Risk factors*".

2.2 Financial Services and Markets Act 2000

The FSMA prohibits any person from carrying on a "regulated activity" by way of business in the UK unless that person is authorised or exempt under the FSMA. Regulated activities include: deposit-taking, mortgage activities (such as entering into, administering, or advising or arranging in respect of, regulated mortgage contracts), effecting and carrying out contracts of insurance as well as insurance mediation, and investment activities (such as dealing in investments as principal or as agent, arranging deals in investments, and managing investments). The Society is authorised with permission to undertake, among other things, deposit-taking, mortgage and certain investment activities. The FSMA, among other legislation, also prohibits financial promotions in the UK unless the promotion is issued or approved by an authorised person or is exempt from such requirements.

The FSMA (as amended by the Financial Services Act 2012) imposes an ongoing system of regulation and control on building societies. The detailed rules and prudential standards set by the FCA and the PRA are contained in various parts of their respective Handbooks. Parts of the FCA and PRA Handbooks which are of particular relevance to building societies include the General Prudential sourcebook, the Prudential sourcebook for Banks, Building Societies and Investment Firms, the Building Societies sourcebook and The Building Societies Regulatory Guide.

The following sections describe some of the concepts for a building society which is authorised under the FSMA.

Mutuality

Building societies are mutual organisations that are managed for the benefit of their members, who are primarily retail savings customers and residential mortgage customers. Each member is normally entitled to one vote at a building society's general meeting, regardless of the size of the member's deposit account or mortgage loan or the number of accounts the member maintains.

Purpose

Building societies are required to be engaged primarily in the business of making loans secured on residential property, which are substantially funded by members. In addition, as long as building societies comply with specific limits on lending and funding, they may engage in additional activities such as commercial lending, unsecured personal lending, insurance and personal investment product activities, subject to compliance with regulatory requirements of the FCA, the PRA and the OFT.

Building societies have a statutory duty to keep accounting records as well as establish and maintain systems of control. The FCA and the PRA are empowered to request *ad hoc* reports regarding a society's compliance with these requirements.

Nature of membership

The members of a building society fall into two categories. The first category consists of investing or "shareholding" members. Shareholding members are individuals who have made a deposit (also referred to as an "investment") in a share account with a building society or who hold deferred shares in the society, and bodies corporate which hold deferred shares. In this Part XIX, deposits in these share accounts are referred to as "UK retail member deposits" and people holding UK retail member deposits are referred to as "UK retail member depositors".

There are restrictions on building societies raising funds from individuals other than in the form of deposits in share accounts or by the issue of deferred shares (including PIBS and the CCDS (see further below)). A subsidiary of a building society may, however, offer deposit accounts which do not confer member status provided it has the required regulatory authorisation. Deposits in these accounts are referred to as "non-member deposits".

The second category of members are "borrowing" members, that is, persons who have received a loan from the building society which is fully or, if the rules of the society allow, substantially secured on land. Building societies may also make loans that do not confer member status, which generally consist of unsecured loans.

Limitations on funding and lending

The Act imposes limits on the ability of building societies to raise funds and to make loans. Investing shares in a building society, representing UK retail member deposits made with the society, must account for not less than 50 per cent. of its total funding. In calculating this amount, a specified amount of deposits made by individuals with a building society's subsidiaries in other EEA Member States, the Channel Islands, the Isle of Man or Gibraltar is disregarded. The specified amount is up to 10 per cent. of what would have been the building society's funding but for the exclusion.

Loans made by a building society and its subsidiaries which are fully secured on residential property must account for not less than 75 per cent. of its total trading assets (that is, the total assets of a building society and its subsidiaries, plus provisions for bad or doubtful debts, less liquid assets, fixed assets and certain long-term insurance funds).

Nature of capital

UK retail member deposits are classified as shares in a building society's balance sheet. There is a fundamental distinction between a share in a building society and a share in a limited liability company. Holders of ordinary shares in a company normally do not have the right to withdraw their share capital from the company. The share capital of a company is therefore fixed. A UK retail member depositor has a right to withdraw his investment from a building society. The share capital of a building society therefore fluctuates each time UK retail member depositors deposit or withdraw funds from their account. As a result shares in a building society do not form a permanent capital resource. The permanent capital of a building society consists primarily of its reserves (which have been built up over the years mainly from its retained earnings) and any deferred shares that it has issued. In addition, a building society can issue deferred shares, which count towards its permanent capital. These have, in the past, mainly been in the form of PIBS, which have counted towards a society's Core Tier 1 capital. More recently, profit participating deferred shares (another type of deferred share), have been recognised by the FSA (and now by the PRA) as Core Tier 1 capital, although these shares have, to date, only been issued by way of exchange for an existing instrument in circumstances of financial stress or by way of a private placement, or as part of a society's contingent convertible capital (in which case it would only be issued upon a serious decline in the society's capital ratio). Changes to the Capital Requirements Directive which were implemented in the UK at the end of 2010 toughened the requirements for tier 1 capital. PIBS, which were already in existence, will retain their capital status but the extent to which such shares count towards regulatory capital will be phased out over a long transitional period. CCDS, as a proposed new form of deferred share, are intended to meet the new regulatory criteria for common equity tier 1 capital, while being consistent with the values of mutuality and supporting members' interests. The CCDS are also designed to be a suitable instrument for raising new capital from external investors.

Hedging

The Act prohibits building societies and their subsidiaries from entering into any transaction involving derivative instruments unless the transaction falls within one of the specified exceptions, including where it is entered for the purpose of limiting the extent to which the society will be affected by fluctuations in interest rates, exchange rates, any index of retail prices, any index of residential property prices, any index of the prices of securities or the ability or willingness of a borrower to repay a loan owing to the building society.

Demutualisation

The Act permits a building society to demutualise by transferring the whole of its business to an existing company (referred to as a **takeover**) or to a specially formed company (referred to as a **conversion**) so long as the process meets statutory requirements. Any such demutualisation must be approved by members and confirmed by the PRA. The successor company will be a bank, which must be duly authorised to carry on its deposit-taking business by the PRA or equivalent EEA regulatory authority.

The member approval threshold required varies depending on the type of demutualisation. In order to convert into a new bank by transferring the building society's business to a specially formed company, a minimum of 50 per cent. of shareholding members qualified to vote would have to vote on a requisite shareholders' resolution, and a minimum of 75 per cent. of those voting would have to support the resolution to convert. In addition, more than 50 per cent. of borrowing members who vote would have to vote in favour of a borrowing members' resolution to convert. On a demutualisation as a result of a takeover by an existing bank or other company, the requirements would be similar except that 50 per cent. of shareholding members qualified to vote (or shareholding members representing 90 per cent. by value of the society's shares) must actually vote in favour of the requisite shareholding members' resolution.

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 Building Societies (Funding) and Mutual Societies (Transfers) Act 2007 (the **Funding and Mutual Societies Transfers Act**). The successor subsidiary must be duly authorised to carry on its deposit-taking business by the PRA or an equivalent EEA regulatory authority. The terms of the transfer to the relevant subsidiary must include provision for making membership of the holding mutual (or membership of the parent undertaking of such holding mutual) available to every qualifying member of the building society and to every person who, after the transfer, becomes a customer of the company, and the membership of the holding mutual (or such parent undertaking) must be on terms no less 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.

Directed transfers

The Act confers power on the PRA, if it considers it expedient to do so in order to protect the investments of shareholders or depositors, to direct a building society to transfer all of its engagements to one or more other building societies or to transfer its business to an existing company. The 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 Funding and Mutual Societies Transfers Act). Where any such direction is made, the PRA may also, if it considers it expedient to do so in order to protect the investments of shareholders or depositors, direct that such transfer may proceed on the basis of a resolution of the board of directors of the building society, without the need for member approval.

2.3 The Office of Fair Trading

The OFT is currently the consumer and competition authority under the UK Enterprise Act 2002, and is responsible for the issue of licences under, and for the working and enforcement of, the UK Consumer Credit Act 1974, as amended (the **Consumer Credit Act 1974**). The OFT and other bodies may enforce consumer legislation under the Enterprise Act 2002 by:

- seeking an informal undertaking, or a formal undertaking, from a business; or
- seeking a court enforcement order against a business.

2.4 Lending

The FSMA regulates mortgage credit within the definition of "regulated mortgage contract" and also regulates certain other types of home finance. A credit agreement is a regulated mortgage contract if it is entered into on or after 31 October 2004 and, at the time it is entered into: (a) the credit agreement is one under which the lender provides credit to an individual or to trustees; (b) the contract provides for the repayment obligation of the borrower to be secured by a first legal mortgage on land (other than timeshare accommodation) in the UK; and (c) at least 40 per cent. of that land is used, or is intended to be used, as or in connection with a dwelling by the borrower or (in the case of credit provided to trustees) by an individual who is a beneficiary of the trust, or by a related person.

If prohibitions under the Financial Services and Markets Act 2000 as to authorisation or financial promotions are contravened, then the affected regulated mortgage contract (and, in the case of financial promotions, other credit secured on land) is unenforceable against the borrower without a court order. The FCA's Mortgages and Home Finance: Conduct of Business sourcebook (**MCOB**) sets out rules in respect of regulated mortgage contracts and certain other types of home finance. Under MCOB rules, an authorised firm (such as the Society) is restricted from repossessing a property unless all other reasonable attempts to resolve the position have failed, which can include the extension of the term of the mortgage, product type changes and deferral of interest payments.

Any credit agreement intended to be a regulated mortgage contract or unregulated might instead be wholly or partly regulated by the Consumer Credit Act 1974 or treated as such, and any credit agreement intended to be regulated by the Consumer Credit Act 1974 or treated as such or unregulated might instead be a regulated mortgage contract, because of technical rules on determining whether the credit agreement or any part of it falls within the definition of a regulated mortgage contract or within the definition of a regulated agreement (described below) and technical rules on changes to credit agreements.

The Consumer Credit Act 1974 regulates credit within the definition of "regulated agreement". A credit agreement is a regulated agreement if: (a) the borrower is or includes an "individual" as defined in the Consumer Credit Act 1974; and (b) the credit agreement is not an exempt agreement under the Consumer Credit Act 1974. Certain financial limits in respect of the credit provided applied to credit agreements entered into before 6 April 2008, or before 31 October 2008 in the case of buy to let mortgages satisfying prescribed conditions. Buy to let mortgages entered into on or after 31 October 2008 and satisfying prescribed conditions are exempt agreements under the Consumer Credit Act 1974.

If requirements under the Consumer Credit Act 1974 as to licensing of lenders or brokers or entering into and documenting a credit agreement are not met, then the affected regulated agreement is unenforceable against the borrower without an order of the OFT or court order or (for agreements entered into before 6 April 2007) is totally unenforceable, depending on the circumstances. Under Sections 75 and 75A of the Consumer Credit Act 1974, in certain circumstances a lender is liable to a customer in relation to misrepresentation and breach of contract by a supplier in a transaction financed by a credit agreement regulated by this Act or treated as such, and the lender has a statutory indemnity from the supplier against liability under Section 75, subject to any agreement between the lender and the supplier.

In December 2011, the FSA published a consultation paper that consolidates proposals arising out of its wide-ranging mortgage market review, which was launched in October 2009 to consider strengthening rules and guidance on, among other things, affordability assessments, product regulation, arrears charges and responsible lending. The FSA's aim was to ensure the continued provision of mortgage credit for the majority of borrowers who can afford the financial commitment of a mortgage, while preventing a re-emergence of poor lending practices as the supply of mortgage credit in the market recovers. In October 2012, the FSA published a feedback statement and final rules that will come into force on 26 April 2014. These rules will require, among other things, an assessment of affordability in accordance with detailed requirements, with transitional arrangements where the borrower does not take on additional borrowing except for essential repairs or maintenance work, and will ban self-certified loans. These rules will permit interest-only loans where there is a clearly understood and credible strategy for repaying the capital (evidence of which the lender must obtain before making the loan and check at least once during the term of the loan) and the cost of the repayment strategy must be part of the affordability assessment.

2.5 Transfer in responsibility for consumer credit regulation

From 1 April 2014, the FCA will take over regulation and oversight of the consumer credit regime, bringing it under the umbrella of the FSMA regime. In conjunction with this change, parts of the Consumer Credit Act 1974 will be repealed and replaced with FCA Handbook rules. Those parts of the Consumer Credit Act 1974 that implement the (maximum harmonisation) Consumer Credit Directive (2008/48/EC) will be retained. Guidance published by the OFT will also be replicated as FCA Handbook rules so that it will have the force of law. Draft rules were published in October 2013, with implementation scheduled for 1 April 2014.

Offences under the Consumer Credit Act 1974 can be prosecuted but criminal prosecutions by the OFT have been rare. The OFT has had powers to refuse or revoke a licence, impose tailored conduct requirements and impose fines of up to £50,000 for breach of a requirement. The FSMA enforcement regime provides a broader range of sanctions, including powers to impose potentially higher fines on individuals and firms, prohibit individuals from working in financial services or carrying on particular activities, publicly censure firms or individuals and require consumer redress schemes to compensate consumers. In addition, the Financial Services Act 2012 gives the FCA power to render unenforceable contracts made in contravention of its product intervention rules. There are currently no plans to repeal the unenforceability provisions in the CCA.

2.6 Insurance

The Society is also authorised for carrying out insurance mediation. The FCA Handbook part Insurance: Conduct of Business Sourcebook sets out rules in respect of non-investment insurance.

2.7 Financial Services Compensation Scheme

Financial Services and Markets Act 2000 established the Financial Services Compensation Scheme, or FSCS, which pays compensation to eligible customers of authorised financial services firms which are unable, or are likely to be unable, to pay claims against them. The levels of compensation are, for example, for claims against firms declared in default on or after 1 January 2010 (31 December 2010 for deposits): (i) for deposits, 100 per cent. of the first £85,000; (ii) for mortgage advice and arranging, 100 per cent. of the first £50,000; and (iii) for insurance, 90 per cent. of the claim with no upper limit (except compulsory insurance is protected in full). The FSCS only pays compensation for financial loss. Compensation limits are per person, per firm and per type of claim. Directive 2009/14/EC, amending Directive 94/19/EC on deposit guarantee schemes (the **DGSD**) requires Member States to set the minimum level of compensation for deposits, for firms declared in default on or after 1 January 2011, at €100,000.

The DGSD required each member state to introduce at least one deposit guarantee scheme, with implementation by 1 July 1995. The DGSD has been reviewed and a new legislative proposal was published by the European Commission in July 2010. The main changes proposed included a tighter definition of deposits, a requirement that the Deposit Guarantee Scheme repay customers within a week and that banks must be able to provide information (a single customer view) at any time. On 12 June 2013, the European Commission announced that the negotiations on revising the DGSD were on hold pending further developments on the RRD.

2.8 Financial Ombudsman Service

The Financial Services and Markets Act 2000 established the Financial Ombudsman Service (the **FOS**), which determines complaints by eligible complainants in relation to authorised financial services firms, consumer credit licensees and certain other businesses, in respect of activities and transactions under its jurisdiction. The FOS determines complaints on the basis of what, in its opinion, is fair and reasonable in all the circumstances of the case. The maximum level of money award by the FOS is £150,000 for complaints received by the FOS on or after 1 January 2012 (£100,000 for earlier complaints) plus interest and costs. The FOS may also make directions awards, which direct the business to take steps as the FOS considers just and appropriate.

2.9 Other relevant legislation and regulation

The UK Money Laundering Regulations 2007 place a requirement on the Society to verify the identity and address of customers opening accounts with it, and to keep records to help prevent money laundering and fraud. Guidance in respect of the Money Laundering Regulations 2007 is contained in the Guidance Notes of the Joint Money Laundering Steering Group, including in respect of the identification of new clients, record keeping and otherwise. Directive 2005/60/EC, which underpins the Money Laundering Regulations 2007, was reviewed by the European Commission between 2010 and 2012 and it found that there were no fundamental shortcomings in the regime.

In response to the European Commission's review, broad support was expressed for the proposed alignment to the revised Financial Action Task Force standards and for greater clarification of certain issues, in particular in the area of data protection and cross-border transactions. In February 2013, the European Commission adopted proposals for a directive on the prevention of the use of the financial systems for the purpose of money laundering and terrorism financing and a regulation on information accompanying transfer of funds to secure due traceability of these transfers.

The UK Data Protection Act 1998 regulates the processing of data relating to individual customers. The UK Unfair Terms in Consumer Contracts Regulations 1999 (together with, insofar as applicable, the Unfair Terms in Consumer Contracts Regulations 1994) apply to consumer contracts entered into on or after 1 July 1995. The main effect of these Regulations is that a contract term which is "unfair" will not be enforceable against a consumer. This applies to, among other things, mortgages and related products and services. The FSA has issued statements of good practice in this regard in May 2005, January 2007 and January 2012, and since 1 April 2013 the FCA works with the OFT to allocate responsibility for regulation of mortgage products.

The Society participates in the unclaimed assets scheme established under the Dormant Bank and Building Society Accounts Act 2008. The purpose of this scheme is to enable money in dormant bank and building society accounts (i.e. balances in accounts that have been inactive or dormant for 15 years or more) to be distributed for the benefit of the community, while protecting the rights of customers to reclaim their money.

On 1 November 2009, the FSA introduced its Banking Conduct Regime for retail banking. The main constituents of this regime are: (i) extending the FCA's Principles for Businesses as they apply to deposit-taking, from prudential matters only, to conduct of business matters in addition; (ii) conduct of business requirements in the Payment Services Regulations 2009 (the **PSR**), which apply to certain payment services made in euro or sterling; and (iii) the FCA's Banking: Conduct of Business Sourcebook, which applies to deposit-taking in respects not covered by the PSR.

On 1 November 2009, the British Bankers' Association, the Building Societies Association and The UK Cards Association launched The Lending Code, a voluntary code on unsecured lending to personal and small business customers, which is monitored and enforced by the Lending Standards Board. The voluntary Banking Code and the Business Banking Code then ceased to have effect.

On 1 April 2010, the Building Societies Sourcebook (**BSOCS**) came into effect, subject to certain transitional provisions. BSOCS contains guidance on the systems and controls in relation to treasury management operations and lending. BSOCS focuses on the key financial and lending risks to which building societies are exposed and sets out the framework within which the FCA will supervise building societies' treasury activities.

1. UNITED KINGDOM TAXATION

The following statements are intended only as a general guide to certain UK tax considerations and do not purport to be a complete analysis of all potential UK tax consequences of acquiring, holding or disposing of CCDS. They are based on current UK tax law and what is understood to be the current practice of HM Revenue and Customs (HMRC) as at the date of this Prospectus, both of which are subject to change, possibly with retrospective effect. They relate only to holders of CCDS who are resident (and, in the case of individuals, domiciled) for tax purposes in (and only in) the UK and to whom the "split year" treatment does not apply, who hold their CCDS as an investment and who are the absolute beneficial owner of both the CCDS and any Distribution paid on them. The tax position of other categories of CCDS holders who are subject to special rules (for example, persons acquiring (or deemed to acquire) their CCDS in connection with an office or employment, traders, brokers, dealers in securities, insurance companies, banks, financial institutions, tax-exempt organisations and persons connected with or employed by the Society) are not considered.

Prospective investors who are in any doubt as to their tax position or who may be subject to tax in a jurisdiction other than the UK are strongly recommended to consult their own professional advisers.

1.1 Taxation of Distributions

The Society will not be required to withhold UK tax at source from Distributions paid on the CCDS.

Individuals

An individual CCDS holder who is resident for tax purposes in the UK and who receives a Distribution from the Society will generally be entitled to a tax credit equal to one-ninth of the amount of the Distribution received, which is equivalent to 10 per cent. of the aggregate of the Distribution received and the tax credit (the **gross Distribution**), and will be subject to income tax on the gross Distribution. An individual UK resident CCDS holder who is subject to income tax at a rate or rates not exceeding the basic rate will be liable to tax on the gross Distribution at the rate of 10 per cent., so that the tax credit will satisfy the income tax liability of such a CCDS holder in full. Where the tax credit exceeds the CCDS holder's tax liability, the CCDS holder cannot claim repayment of the tax credit from HMRC.

A CCDS holder who is subject to income tax at the higher rate will be liable to income tax on the gross Distribution at the rate of 32.5 per cent. to the extent that such sum, when treated as the top slice of that CCDS holder's income, exceeds the threshold for higher rate income tax and falls below the threshold for income tax at the additional rate. After setting the 10 per cent. tax credit against part of the CCDS holder's tax liability, a higher rate taxpayer will therefore be liable to account for tax equal to 22.5 per cent. of the gross Distribution, (or 25 per cent. of the net Distribution), to the extent that the gross Distribution exceeds the threshold for the higher rate and falls below the threshold for income tax at the additional rate.

A CCDS holder liable to income tax at the additional rate will be subject to income tax on the gross Distribution at the rate of 37.5 per cent. of the gross Distribution, but will be able to set the UK tax credit off against part of this liability. The effect of that set-off of the UK tax credit is that such a CCDS holder will have to account for additional tax equal to 27.5 per cent. of the gross Distribution (or approximately 30.6 per cent. of the net Distribution) to the extent that the gross Distribution exceeds the threshold for the additional rate.

Companies

CCDS holders within the charge to UK corporation tax which are ''small companies'' for the purposes of Chapter 2 of Part 9A of the Corporation Tax Act 2009 should not be subject to UK corporation tax on any Distribution received from the Society provided certain conditions are met (including an anti-avoidance condition).

Other CCDS holders within the charge to UK corporation tax will not be subject to UK corporation tax on Distributions received from the Society so long as the Distributions fall within an exempt class and certain conditions are met. For example, Distributions paid out of profits available for distribution should generally fall within an exempt class. However, the exemptions are not comprehensive and are subject to anti-avoidance rules.

If the conditions for exemption are not met or cease to be satisfied, the CCDS holder will be subject to UK corporation tax on Distributions received from the Society, at the rate of corporation tax applicable to that CCDS holder for the relevant accounting period. The main rate of corporation tax for 2013 is 23 per cent., falling to 21 per cent. for 2014 and 20 per cent. for 2015.

No Payment of Tax Credit

Individual UK resident CCDS holders who are not liable to UK income tax in respect of the gross Distributions, and other UK resident tax-payers who are not liable to UK tax on Distributions, will not be entitled to claim repayment of the tax credit attaching to any Distributions paid by the Society.

1.2 Taxation of disposals

A disposal or deemed disposal of CCDS by a holder who is resident in the UK for tax purposes, or, in the case of individuals, who cease to be resident in the UK for a period of five years or less, may, depending upon the CCDS holder's circumstances and subject to any available exemption or relief (such as the annual exempt amount for individuals and indexation allowance for companies), give rise to a chargeable gain or an allowable loss for the purposes of UK taxation of capital gains.

1.3 Stamp duty and Stamp Duty Reserve Tax (SDRT)

Following recent case law, no stamp duty or SDRT should be payable in the UK on the issue of the Global CCDS Certificate into the Clearing Systems. Provided no election is or has been made under section 97A of the Finance Act 1986 (a **97A election**) by a Clearing System that applies to the CCDS, no stamp duty or SDRT should be payable on the transfer of CCDS in that Clearing System, without an instrument of transfer. On 18 November 2013, the Society received confirmation from each of the Clearing Systems that the CCDS would be admitted to its systems without a 97A election applying to the CCDS. However, if a 97A election were to apply to the CCDS in the future, 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.

If definitive CCDS Certificates are issued, SDRT may be payable on an agreement to transfer the CCDS. SDRT would be payable generally at the rate of 0.5 per cent. of the consideration given under the agreement to transfer the CCDS. This 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.

2. EUROPEAN UNION SAVINGS TAX DIRECTIVE

Under EC Council Directive 2003/48/EC on the taxation of savings income (the **Savings Tax Directive**), Member States are required to provide to the tax authorities of another Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to an individual resident in that other Member State or to certain limited types of entities established in that other Member State. However, for a transitional period, Austria and Luxembourg are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). A number of non-European Union countries and territories, including Switzerland, have adopted similar measures (a withholding system in the case of Switzerland). In April 2013, the Luxembourg Government announced its intention to abolish its withholding system with effect from 1 January 2015 in favour of automatic information exchange under the Savings Tax Directive.

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

3. 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**).

The proposed FTT has very broad scope and could, if introduced in its current form, apply to certain dealings in the CCDS (including secondary market transactions) in certain circumstances. The issuance and subscription of CCDS 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 CCDS 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.

The FTT proposal remains subject to negotiation between the participating Member States and is the subject of legal challenge. 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 CCDS are advised to seek their own professional advice in relation to the FTT.

4. FOREIGN ACCOUNT TAX COMPLIANCE ACT

Sections 1471 through 1474 of the U.S. Internal Revenue Code of 1986 (**FATCA**) impose a new reporting regime and potentially a 30 per cent. withholding tax with respect to certain payments to (i) any non-U.S. financial institution (a **foreign financial institution**, or **FFI** (as defined by FATCA)) that does not become a **Participating FFI** by entering into an agreement with the U.S. Internal Revenue Service (**IRS**) to provide the IRS with certain information in respect of its account holders and investors or is not otherwise exempt from or in deemed compliance with FATCA and (ii) any investor (unless otherwise exempt from FATCA) that does not provide information sufficient to determine whether the investor is a U.S. person or should otherwise be treated as holding a **United States Account** of the Society (a **Recalcitrant Holder**). The Society is classified as an FFI.

The new withholding regime will be phased in beginning 1 July 2014 for payments from sources within the United States and will apply to **foreign passthru payments** (a term not yet defined) no earlier than 1 January 2017. This withholding would potentially apply to payments in respect of the CCDS if characterised as equity for U.S. federal tax purposes.

The United States and a number of other jurisdictions have announced their intention to negotiate intergovernmental agreements to facilitate the implementation of FATCA (each, an **IGA**). Pursuant to FATCA and the "Model 1" and "Model 2" IGAs released by the United States, an FFI in an IGA signatory country could be treated as a **Reporting FI** not subject to withholding under FATCA on any payments it receives. Further, an FFI in a Model 1 IGA jurisdiction would not generally be required to withhold under FATCA or an IGA (or any law implementing an IGA) (any such withholding being **FATCA Withholding**) from payments it makes. Under each Model IGA, a Reporting FI would still be required to report certain information in respect of its account holders and investors to its home government or to the IRS. The United States and the United Kingdom have entered into an agreement (the **US-UK IGA**) based largely on the Model 1 IGA.

The Society expects to be treated as a Reporting FI pursuant to the US-UK IGA and does not expect to be subject to FATCA Withholding on payments it receives. There can be no assurance, however, that the Society will be treated as a Reporting FI and that such withholding will not be imposed against the Society. Any such withholding imposed on the Society may reduce the amounts available to the Society to make payments on the CCDS.

Further, the Society does not anticipate being obliged to deduct any FATCA Withholding on payments it makes. There can be no assurance, however, that the Society will be treated as a Reporting FI, or that it would in the future not be required to deduct FATCA Withholding from payments it makes. Accordingly, the Society and financial institutions through which payments on the CCDS are made may be required to withhold FATCA

Withholding if (i) any FFI through or to which payment on such CCDS is made is not a Participating FFI, a Reporting FI, or otherwise exempt from or in deemed compliance with FATCA or (ii) an investor is a Recalcitrant Holder.

If an amount in respect of FATCA Withholding were to be deducted or withheld from any payments, neither the Society nor the Registrar (or any other appointed paying agent) nor any other person would, pursuant to the conditions of the CCDS, be required to pay additional amounts as a result of the deduction or withholding. As a result, investors may receive less than expected.

While the CCDS are in global form and held within the clearing systems, it is expected that FATCA will not affect the amount of any payments made under, or in respect of, the CCDS by the Society, the Registrar (or any other appointed paying agent) and the Nominee, given that each of the entities in the payment chain beginning with the Society and ending with the participant in the clearing systems is a major financial institution whose business is dependent on compliance with FATCA and that any alternative approach introduced under an IGA will be unlikely to affect the CCDS. The documentation expressly contemplates the possibility that the CCDS may go into definitive form and therefore that they may be taken out of the clearing systems. If this were to happen, then a non-FATCA compliant holder could be subject to FATCA Withholding. However, in accordance with the terms of the CCDS, CCDS would be represented in definitive form outside the clearing systems only in the very remote circumstances that the clearing systems cease business and no alternative clearing system satisfactory to the Registrar is available.

FATCA is particularly complex and its application is uncertain at this time. The above description is based in part on regulations, official guidance and model IGAs, all of which are subject to change or may be implemented in a materially different form. Prospective investors should consult their tax advisers on how these rules may apply to the Society and to payments they may receive in connection with the CCDS.

TO ENSURE COMPLIANCE WITH IRS CIRCULAR 230, EACH TAXPAYER IS HEREBY NOTIFIED THAT: (A) ANY TAX DISCUSSION HEREIN IS NOT INTENDED OR WRITTEN TO BE USED, AND CANNOT BE USED BY THE TAXPAYER FOR THE PURPOSE OF AVOIDING U.S. FEDERAL INCOME TAX PENALTIES THAT MAY BE IMPOSED ON THE TAXPAYER; (B) ANY SUCH TAX DISCUSSION WAS WRITTEN TO SUPPORT THE PROMOTION OR MARKETING OF THE TRANSACTIONS OR MATTERS ADDRESSED HEREIN; AND (C) THE TAXPAYER SHOULD SEEK ADVICE BASED ON THE TAXPAYER'S PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISER.

PART XXI – ADDITIONAL INFORMATION

1. INCORPORATION AND PRINCIPAL OFFICE

1.1 The principal and head office of the Society is at Nationwide House, Pipers Way, Swindon SN38 1NW, United Kingdom (telephone number +44 (0) 1793 513 513).

1.2 The principal legislation under which the Society operates and under which the CCDS were created is the Building Societies Act 1986, as amended.

2. CCDS CAPITAL

2.1 By a special resolution of the members of the Society passed on 19 July 2012 the Rules were amended to enable the Society to issue CCDS.

2.2 By a resolution of the Board passed on 20 November 2013 the issue of up to 5,750,000 CCDS was authorised and approved in such amount as a committee of the Board may determine.

2.3 By a resolution of a committee of the Board to be convened prior to Admission, the final number of CCDS to be issued pursuant to the Offer will be authorised and approved.

2.4 The CCDS will be issued on the business day before the date of Admission. Prior to such date, there will be no CCDS in issue. The number of CCDS in issue immediately following Admission will be detailed in the Statement. The maximum number of CCDS in issue following Admission will be 5,750,000 (calculated on the basis that the Over-allotment Option exercised in full).

When issued, CCDS will constitute deferred share capital and will rank junior to the Society's PIBS. For information on the capital of the Society see paragraph 4 "*Deferred share capital of the Society*" below.

2.5 The rights attaching to the CCDS are set out in "*Part VIII: Conditions of issue of the Core Capital Deferred Shares*". Variations to those rights that will apply whilst the CCDS are represented by the Global CCDS Certificate are set out under "*Overview of Provisions relating to the CCDS while represented by the Global CCDS Certificate*" in "*Part VIII Conditions of issue of the Core Capital Deferred Shares*" Save as disclosed in this Prospectus:

(a) no CCDS or loan capital of the Society or any of its subsidiaries has within the period covered by the historical financial information set out in this Prospectus (other than intra-group issues by wholly owned subsidiaries or pursuant to the Offer) been issued or been agreed to be issued fully or partly paid, either for cash or for a consideration other than cash and no such issue is now proposed;

(b) no commissions, discounts, brokerages or other special terms have been granted by the Society or any of its subsidiaries within the period covered by the historical financial information set out in this Prospectus in connection with the issue or sale of any CCDS or loan capital of any such company; and

(c) no CCDS or loan capital of the Society or any of its subsidiaries is under option or agreed, conditionally or unconditionally, to be put under option.

2.6 When admitted to trading, the CCDS will be registered with the International Security Identification Number (ISIN) GB00BBQ33664.

3. SUMMARY OF THE SOCIETY'S MEMORANDUM AND RULES

The Society's current Memorandum and Rules, which have been in effect since 1 September 2012, include provisions with the effect as described below.

3.1 Purposes

The Society's purposes are set out in paragraph 3 of the Memorandum. Its principal purpose is making loans which are secured on residential property and are funded substantially by its members. The other purposes of the Society are:

(i) to carry on the businesses of banking, investment, insurance and the provision of financial services and facilities;

(ii) to carry on any businesses connected with the provision of housing or other accommodation or any services relating to housing or other accommodation;

(iii) to carry on any businesses in the fields of information technology, data processing and communications;

(iv) to carry on any businesses involving the provision of goods or other services (whether for consumers or others) or dealing in any property;

(v) to act as a parent undertaking and investment body and to assist and co-ordinate the activities of any undertakings in which it holds an interest;

(vi) to promote and support community and charitable purposes; and

(vii) to carry on or participate in any business or other activity which, in the opinion of the Board or any duly authorised officer or employee of the Society, may conveniently be carried on in connection with any other activity of the Society or for developing, taking advantage of or protecting any of the property or income of the Society or any connected undertaking of the Society or managing any risks associated with the activities of the Society or any connected undertaking of the Society.

3.2 Membership

A member of the Society is a person who has a share investment or mortgage loan with the Society (referred to as "an investing member" or a "borrowing member" respectively). A person may be an investing member or a borrowing member or both. A body corporate cannot become an investing member (except as a holder of a deferred share investment) or a borrowing member.

3.3 Share investments

A share investment is an investment classed as shares under its terms and conditions. Share investments may be of such types (including preferred share investments and deferred share investments) and on such terms and conditions as the Society decides. A preferred share investment is a share investment the terms of which entitle holders to priority of repayment over holders of share investments generally on a winding-up or dissolution. A deferred share investment is a share investment the terms of which provide that holders shall be entitled to repayment after the holders of share investments generally. A deferred share (core capital) investment is a deferred share investment that qualifies or is intended to qualify as common equity tier 1 capital (or equivalent). A CCDS is a deferred share (core capital) investment. The preferred share investments and deferred share investments in issue at any time will not exceed in total more than 25 per cent. of the principal amount of all kinds of share investments in issue at the end of the last financial year.

A number of provisions in the Rules are expressed to apply to share investments (covering matters such as notice of changes to terms and conditions, withholding repayment, closing accounts and transfer). These provisions, in practice, apply to share investments in the form of UK retail member deposits in share accounts and not to deferred share investments (including CCDS) which are governed by their terms and conditions. In order to change the rights of CCDS holders, it would be necessary to obtain their consent in accordance with Condition 11 of the conditions of issue as described in "*Part VIII: Conditions of issue of the Core Capital Deferred Shares*".

3.4 Mortgage loans

Mortgage loans may be of such types and amounts and on such terms and conditions as the Society decides. Unless those terms and conditions provide otherwise:

(i) a borrowing member may repay the whole or any part of his mortgage loan at any time;

(ii) the Society may capitalise any interest or other payment which is overdue on 31 December in any year and at any time on giving 14 days' notice;

(iii) the Society may charge for administration in accordance with any general tariff of charges it sets; this tariff may be changed from time to time to reflect any change in the cost of administration and the Society will give notice of these changes; and

(iv) any property comprising the security shall be insured for such sum and against such risks as the Society may reasonably decide.

3.5 General meetings

General meetings of members are either Annual General Meetings or Special General Meetings. Any member may attend and speak at a general meeting. A member which is a corporate body may appoint someone (who need not be a member) to act as its representative at a general meeting. A qualified voting member (see paragraph 3.6 "*Voting*" below) may appoint someone else (who need not be a member) as his proxy to attend, speak and vote on his behalf at a general meeting.

The Annual General Meeting will be held during the first four months of the Society's financial year. Subject to certain exceptions, the Society will put a resolution to an Annual General Meeting if requested by 500 qualified two year members. The Society will not put a resolution where the Act (including any orders made under it) states that there is no obligation to do so.

A qualified two year member is a member who, in the case of a member who is an individual, is at least 18 years of age at the relevant date (being the date on which the relevant request is received) and who (a) held a share investment with a value of at least £100 (except in relation to the nomination for election of a Director, where the value is at least £200) throughout the period of two years ending on the relevant date; or (b) owed at least £100 (except in relation to the nomination for election of a Director, where the value is at least £200) on a mortgage loan throughout the period of two years ending on the relevant date.

The Society may call a Special General Meeting at any time. The Society will call a Special General Meeting if requested to do so by 500 qualified two year members (subject to certain formalities).

The Society will not call a Special General Meeting: (i) where the only or main purpose of the meeting is to move a resolution which is in substantially the same terms as any resolution which has been defeated during the period starting with the third Annual General Meeting before the Society receives the request to call the meeting; (ii) to be held during the period of four months beginning one month after the end of the Society's financial year.

Any meeting which the Society is required to call will be called by due notice within 28 days, and held within 63 days, of receipt by the Society of the request. The period of four months beginning one month after the end of the financial year will be disregarded when applying the time limits of 28 and 63 days.

Notice of any general meeting must be sent to each eligible member by post or made available by electronic communication in such manner as may be authorised by the Board from time to time (subject to compliance with the Act (and any orders made under it)). Such notice must state the place, date and time of the meeting and the nature of the business of the meeting and include a proxy form. It must be sent so as to reach eligible members at least 21 days before the last date for the receipt of proxies and must also be displayed in a prominent position in every branch office or advertised in at least one national newspaper. For the purposes of receiving notice of a general meeting, an eligible member is any member who would have been eligible to vote at the meeting if the meeting were held on the date of the notice and any person who either (i) becomes a member after the date of the notice but before the last date fixed for receiving forms appointing proxies to vote at the meeting, or (ii) is a member at the date of the notice and attains the age of 18 after that date and on or before the date of the meeting.

The quorum at a general meeting is 50 qualified voting members present in person (or by representative in the case of a corporate member). If within one hour of the appointed time a quorum is not present a meeting called at the request of members shall be dissolved and any other meeting shall be adjourned to such time and place as the Directors present or a majority of them decide. At such an adjourned meeting the qualified voting members present shall be a quorum.

The Society may submit any resolution (other than one that the Act (including any orders made under it) requires to be passed by borrowing members only or investing members only) to a postal ballot.

3.6 Voting

A member may vote on a resolution at a general meeting (or in a postal ballot) if they are a qualified voting member. A qualified voting member is a member who:

(i) in the case of a member who is an individual, is at least 18 years of age at the date of the general meeting (or, in the case of a postal ballot, at the closing date for the receipt of voting papers); and

(ii) meets either the requirements to vote as an investing member or as a borrowing member.

To vote as an investing member, the member must have:

(i) held a share investment at the end of the financial year before the voting date; and

(ii) held a share investment with a value of at least £100 on the voting qualification date; and

(iii) held a share investment on the voting date.

In the case of CCDS held by the Nominee, the Nominee will hold the entitlement to vote at general meetings and not the holder of the beneficial interest in the CCDS. The Nominee has informed the Society that it does not intend to exercise that entitlement to vote insofar as such vote relates to its holding of CCDS.

To vote as a borrowing member, a member must have owed at least £100 on a mortgage loan both at the end of the financial year before the voting date and on the voting date.

The voting date is the date of the general meeting at which any resolution is to be moved. In the case of a postal ballot it is the closing date for the receipt of voting papers and in the case of a member who appoints a proxy to vote at a meeting, it is the last date fixed for the receipt of proxy forms. The voting qualification date in the case of a meeting (or a postal ballot) held between the beginning of the Society's financial year and the conclusion of the Annual General Meeting for that year, is the last day of the preceding financial year. In all other cases, the voting qualification date is the day which falls 56 days before the date of the meeting (or the closing date for the receipt of voting papers).

A qualified voting member is entitled to one vote irrespective of the number and value of his share investments and mortgage loans. The chairman shall have a second or casting vote in the case of an equal number of votes for and against a resolution.

Any resolution shall be passed as an ordinary resolution (which requires a simple majority of votes cast) unless the Rules of the Society or the Act (including any orders made under it) require otherwise. The Act (including any orders made under it) may require certain resolutions to be passed by investing members or borrowing members. In such cases only investing members or borrowing members respectively shall be entitled to vote. This is relevant when the Society is proposing to enter into any of the following types of transaction: an amalgamation with another building society; the transfer of the Society's engagements to another society or the transfer of another society's engagements to the Society; and the transfer of the Society's business to a company. In the event that any transfer of this nature requires the approval of the Society's members in accordance with the Act (including any orders made under it), approval will be required by both an investing members' resolution and a borrowing members' resolution in accordance with the specific requirements set out in such legislation.

3.7 The Board of Directors

The Society's business and the conduct of its affairs are the responsibility and under the direction, control and management of the Board. The Board may exercise all the powers which need not be exercised in general meeting or by another person. It may delegate any of its powers, discretions and authorities in relation to its business to any committee, officer, employee, adviser or agent (including the power to delegate further).

The Board may decide its own number but this shall not be less than eight. It may continue to act not withstanding any vacancies on the Board but must appoint a Director to fill any vacancy where the number falls below eight.

Each Director must hold a share investment to a value of not less than £1,000.

3.8 Board meetings

The Board may from time to time elect a Chairman and one or more Deputy Chairmen from amongst its number and shall elect or re-elect such officers each year at its first meeting following the Annual General Meeting. A Board meeting may be called by the Chairman, any Deputy Chairman, the Chief Executive, any two Directors or the secretary of the Society.

A quorum at a Board meeting is five Directors provided that those holding executive office do not form a majority of those present. However, if the size of the Board falls below five the remaining Directors will be a quorum.

The Board decides matters by a majority of votes and in the case of an equality of votes the Chairman has a second or casting vote. A resolution in writing signed by all the Directors is as valid and effective as if it had been passed at a duly convened and constituted Board meeting.

All matters decided at any meeting of the Board or of any committee of it will be valid even if it is later discovered that the meeting was improperly convened or constituted or that the appointment or election of any Director or any committee member is invalid or that any such person is or was disqualified.

3.9 Appointment, election and retirement of Directors

The Board may at any time appoint a Director to fill a vacancy other than one arising from the retirement from office of a Director at an Annual General Meeting. A Director appointed by the Board shall retire from office at the Annual General Meeting following his appointment and shall be eligible for election at that meeting without nomination or, if the Director was appointed during the period starting with the beginning of the financial year and ending with the Annual General Meeting, at the Annual General Meeting in the financial year following his appointment.

At each Annual General Meeting any Director who was not elected at either of the last two Annual General Meetings shall retire from office and shall be eligible for election at that meeting without nomination.

A nomination for election as a Director may be made by 250 qualified two year members.

3.10 Remuneration of Directors

The total remuneration of the Directors (exclusive of any remuneration paid in respect of executive duties) is decided by the Board but must not exceed fifteen pence per ten thousand pounds of the Society's total assets at the start of the financial year in which the remuneration is paid.

Directors are entitled to be reimbursed by the Society for all expenses properly incurred in connection with the Society's business.

The Board may make payments for the purpose of providing pensions for former Directors and their dependants. Any pension payable shall be of such amount and on such terms and conditions as the Board may decide.

3.11 Directors' interests

A Director must declare any interest in accordance with the Act (including any orders made under it) and any other material interest and (except in relation to Directors' remuneration) shall not vote on any matter to be decided by the Board in which he has such an interest or be counted in the quorum present at any meeting at which such matter is considered.

A Director may hold any office of profit with the Society (other than the office of auditor or valuer) simultaneously with his office of Director and may be appointed by the Board to an office of profit with any body corporate in which the Society is, or will be, interested. A Director appointed to an office of profit with any such body corporate must promptly disclose to the Board any benefit he derives from that office.

A Director, notwithstanding his interest, may be counted in the quorum present at any meeting at which he or any other Director is appointed to hold any office of profit with the Society or with any body corporate in which the Society is, or will be, interested or at which the terms of any such appointment are arranged. He may vote on any such appointment or arrangement other than his own appointment or the arrangement of the terms of that appointment.

3.12 Directors' indemnity

Every Director or officer shall be indemnified by the Society against any liability which arises from or in the course of duty insofar as the Act (including any orders made under it) does not prevent such indemnity.

3.13 Vacation of office and disqualification

A Director shall cease to hold office:

(i) on the date specified in a written notice of resignation;

(ii) on taking up permanent residence outside the United Kingdom without the prior written consent of all other Directors;

(iii) on conviction for any offence involving dishonesty or on imprisonment following conviction for any offence;

(iv) on being adjudicated bankrupt or compounding or making any arrangement with creditors generally;

(v) on becoming a patient within the meaning of certain mental health legislation;

(vi) on accepting or holding office or employment in another building society without the prior written consent of all other Directors;

(vii) in the case of a Director who is an executive of the Society, on termination of employment unless the Board resolves that the Director shall continue in office as such;

(viii) on ceasing to hold the required share investment;

(ix) if disqualified or otherwise prohibited at law from holding office as a Director of either a company or a building society;

(x) if requested in writing by all other Directors to resign;

(xi) if the Board passes a resolution to that effect after the Director has been absent from all meetings of the Board held during a period of three consecutive months;

(xii) if a resolution to that effect is passed at a general meeting or on a postal ballot; or

(xiii) if the Board passes a resolution to that effect either: (1) after a regulatory authority has made it a condition of the Society's continued authorisation that the Director should cease to hold office or has imposed a requirement or made a recommendation that he should cease to hold office; or (2) following a failure by the Director to obtain or maintain any personal authorisation required from a regulatory authority relevant to the office of Director.

3.14 Profits and losses

The Society may reserve all or part of the profit in any financial year either for general or specific purposes.

Any loss shown in the Society's accounts for any financial year shall be met first from reserves. If the reserves are insufficient to meet the loss in full, the balance of the loss following depletion of the reserves shall be met by the holders of deferred share investments or subordinated debt in accordance with the terms of those investments and debts.

Any deferred share (core capital) investment must be issued on terms that limit the amount of the periodic investment returns that may be paid on such investment in respect of any given financial year to not more than the applicable periodic investment returns cap, in order to protect the reserves of the Society.

The Board may determine and from time to time publish the policy of the Society in relation to the periodic investment returns on any deferred share (core capital) investments and shall have regard to the ongoing profitability and long-term viability of the Society, the need for the Society to ensure that it has adequate capital resources and such other factors as the Board considers appropriate. Periodic investment returns may be paid at the discretion of the Board either out of profits made by the Society in the relevant financial year or, subject to applicable law and regulation, out of reserves of the Society available for distribution.

3.15 Dissolution or winding-up

On dissolution or winding-up 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):

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

(ii) shall be divided among those investing members 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.

3.16 Interpretation

This paragraph 3 "*Summary of the Society's Memorandum and Rules*" contains references to certain amounts of money, numbers of members, numbers of days and percentages. These references represent amounts, numbers and percentages specified for particular purposes by the Act (or orders made under it). Each such amount, number and percentage shall be read as if followed by the words "or such other amount, figure or percentage which is for the time being the maximum permitted for this purpose by the Act and orders made under it".

The Rules apply subject to any provisions of the Act (including any orders made under it).

4. DEFERRED SHARE CAPITAL OF THE SOCIETY

The Society has issued a number of series of Permanent Interest Bearing Shares (**PIBS**). The PIBS are deferred shares in the Society for the purposes of section 119 of the Act and rank *pari passu* with each other and behind the claims against the Society of all subordinated noteholders, depositors, creditors and investing members (except claims in respect of CCDS) of the Society.

As at the date of this Prospectus, the following series of PIBS are outstanding and are only repayable (in each case, with the prior consent of the PRA or on the winding-up or dissolution of the Society in circumstances where all sums due from the Society to creditors claiming in the winding-up or dissolution of the Society are paid in full) as follows:

- The 6.024% PIBS (now floating rate PIBS as described below) are repayable, at the option of the Society, in whole on 6 February, 6 May, 6 August and 6 November in each year commencing on 6 February 2013.

- The 7.971% PIBS are repayable, at the option of the Society, in whole on 13 March 2015 or any fifth anniversary thereafter.

- The 6% PIBS are repayable, at the option of the Society, in whole on every 15 March, 15 June, 15 September and 15 December in each year, commencing on 15 December 2016.

- The 6.875% PIBS are repayable, at the option of the Society, in whole on 10 January 2019 or any fifth anniversary thereafter.

- The 7.25% PIBS are repayable, at the option of the Society, in whole on 5 December 2021 and every fifth successive 5 December thereafter.

- The 6.25% PIBS are repayable, at the option of the Society, in whole on 22 October 2024 and every fifth successive 22 October thereafter.

- The 5.769% PIBS are repayable, at the option of the Society, in whole on 6 February 2026 or any fifth anniversary thereafter.

- The 7.859% PIBS are repayable, at the option of the Society, in whole on 13 March 2030 or any fifth anniversary thereafter.

- The floating rate PIBS are repayable on the winding-up or dissolution of the Society but only if and subject to the condition that all sums due from the Society to creditors claiming in the winding-up or dissolution have been paid in full.

These PIBS will retain their capital status, but the extent to which these deferred shares count towards regulatory capital is being phased out over the period from 1 January 2014 to 31 December 2021.

Each series of PIBS are unsecured and denominated in sterling and are transferable in accordance with the Rules in minimum nominal amounts which vary from series to series.

The interest rate risk arising from the issuance of fixed rate PIBS has been mitigated through the use of interest rate swaps.

In December 2012, the Society invited holders of its £350 million 6.024 per cent. PIBS to tender their PIBS for purchase by the Society. The Society redeemed £347 million PIBS paying a cash purchase price of 88 per cent. and accrued interest equal to 2.226 per cent. Following the repayment, £3 million in aggregate nominal amount of the 6.024 per cent. PIBS remain outstanding and have been converted to floating rate PIBS (in accordance with their terms).

In August 2013, the Society invited holders of its:

- £30 million 6.875 per cent. PIBS;

- £60 million 7.25 per cent. PIBS;

- £125 million 6.25 per cent. PIBS;

- £400 million 5.769 per cent. PIBS; and

- £100 million 7.859 per cent. PIBS,

to tender their PIBS for purchase by the Society. In aggregate, on 19 September 2013 the Society redeemed £485,259,000 in outstanding principal amount of PIBS, split between the different series as follows:

- 6.875 per cent. PIBS – £20,047,000 redeemed at a cash price of 100 per cent. plus accrued interest equal to 1.32643 per cent. of the principal amount of the PIBS, resulting in an outstanding principal amount of £10.0 million;

- 7.25 per cent. PIBS – £22,415,000 redeemed at a cash price of 100 per cent. plus accrued interest equal to 2.09973 per cent. of the principal amount of the PIBS, resulting in an outstanding principal amount of £37.6 million;

- 6.25 per cent. PIBS – £77,627,000 redeemed at a cash price of 91 per cent. plus accrued interest equal to 2.56148 per cent. of the principal amount of the PIBS, resulting in an outstanding principal amount of £47.4 million;

- 5.769 per cent. PIBS – £304,070,000 redeemed at a cash price of 95 per cent. plus accrued interest equal to 0.68977 per cent. of the principal amount of the PIBS, resulting in an outstanding principal amount of £95.9 million; and

- 7.859 per cent. PIBS – £61,100,000 redeemed at a cash price of 106.50 per cent. plus accrued interest equal to 0.12919 per cent. of the principal amount of the PIBS, resulting in an outstanding principal amount of £38.9 million.

The aggregate outstanding principal amount of PIBS as at 30 September 2013 and as at 4 April in each of 2013, 2012 and 2011, respectively, is as follows:

	As at 30 September 2013	As at 4 April		
		2013	2012	2011
	(£ millions)			
6.024% permanent interest bearing shares	3	3	350	350
6.875% permanent interest bearing shares	10	30	30	30
7.971% permanent interest bearing shares	200	200	200	200
7.25% permanent interest bearing shares	37	60	60	60
6.25% permanent interest bearing shares	47	125	125	125
5.769% permanent interest bearing shares	96	400	400	400
7.859% permanent interest bearing shares	39	100	100	100
Floating rate permanent interest bearing shares	10	10	10	10
6% permanent interest bearing shares	140	140	140	140
Total	**582**	**1,068**	**1,415**	**1,415**

The rights of the PIBS holders are markedly different from those of shareholders in a company, including, in particular, as to voting rights and protection of minorities. For example, each PIBS holder only has one vote at general meetings of the Society, irrespective of the number of PIBS it holds, whereas shareholders at a general meeting of a company would normally have one vote on a poll for each ordinary share held.

Moreover, these rights will be even more restricted for any investors which hold their PIBS through a Euroclear or Clearstream, Luxembourg account, as such investors will not themselves be entered on the PIBS register as holder of the relevant PIBS. Instead, the holder entered on the PIBS register for such PIBS will be the nominee for the common depositary for Euroclear and Clearstream, Luxembourg, and the relevant investor's holding of PIBS will be recorded in the internal records of Euroclear and/or Clearstream, Luxembourg, as the case may be. This means that investors will not themselves be members of the Society by virtue of their investment in PIBS and, accordingly, will not be entitled to vote at any general meeting of the Society or in a postal ballot or to any other similar membership rights. Instead, the members' rights attaching to the PIBS held through Euroclear and Clearstream, Luxembourg will be held by the nominee. Such nominee will be entered in the PIBS register as the holder of PIBS held in this manner, and will be entitled to exercise the voting and other members' rights attributable to all those PIBS so held.

Subsequent to 30 September 2013, the Society redeemed a further £20,926,000 in outstanding principal amount of PIBS, split between the different series as follows:

- 6.875 per cent. PIBS – £314,000 redeemed at a cash price of 100 per cent. plus accrued interest equal to 1.60666 per cent. of the principal amount of the PIBS, resulting in an outstanding principal amount of £9.6 million;

- 7.25 per cent. PIBS – £4,320,000 redeemed at a cash price of 100 per cent. plus accrued interest equal to 2.39686 per cent. of the principal amount of the PIBS, resulting in an outstanding principal amount of £33.3 million;

- 6.25 per cent. PIBS – £3,602,000 redeemed at a cash price of 91 per cent. plus accrued interest equal to 2.81762 per cent. of the principal amount of the PIBS, resulting in an outstanding principal amount of £43.8 million;

- 5.769 per cent. PIBS – £12,190,000 redeemed at a cash price of 95 per cent. plus accrued interest equal to 0.92492 per cent. of the principal amount of the PIBS, resulting in an outstanding principal amount of £83.7 million; and

- 7.859 per cent. PIBS – £500,000 redeemed at a cash price of 106.50 per cent. plus accrued interest equal to 0.45216 per cent. of the principal amount of the PIBS, resulting in an outstanding principal amount of £38.4 million.

The settlement date for the above redemptions was 4 October 2013.

5. DIRECTORS

5.1 The biographies of the Directors are set out in "*Part XI: Directors, employees and corporate governance*".

5.2 The business address of each of the Directors is: Nationwide House, Pipers Way, Swindon SN38 1NW, United Kingdom.

5.3 In addition to their directorships of the Society, the Directors hold, or have held, the following directorships and are or were members of the following partnerships, within the past five years:

Name	Position	Company/ Partnership	Status (Current/Previous)
Geoffrey Howe	Chairman and Non-Executive Director	Close Brothers Group plc	Current
		Gateway Electronic Components Limited	Current
		Jardine Lloyd Thompson Group plc	Current
		The Cavendish School Charitable Trust Limited	Current
		Investec plc	Previous

Name	Position	Company/ Partnership	Status (Current/Previous)
Roger Perkin	Senior Independent Director and Non-Executive Director	Crime Reduction Initiatives	Current
		Bower Bequest Trustee Company Limited	Current
		Electra Private Equity plc	Current
		Electra Private Equity Investments plc	Current
		Tullett Prebon plc	Current
		Resolution Limited	Current
		Friends Life Group plc	Current
		Friends Life Group Holdings Limited	Current
		Sova	Current
		The Evolution Group plc	Previous
Alan Dickinson	Non-Executive Director	Kennington Oval Limited	Current
		Frogmore Property Company Limited	Current
		Carpetright plc	Current
		Willis Limited	Current
		Motability (Governor)	Current
		Brown Shipley & Co Limited	Current
		Lombard North Central Public Limited Company	Previous
Mitchel Lenson	Non-Executive Director	Eclipse Film Partners No.4 LLP	Current
		Eclipse Film Partners No.39 LLP	Current
		The Invicta Film Partnership No.37 LLP	Current
		Elysian Fuels 1 LLP	Current
		Elysian Fuels 2 LLP	Current

Name	Position	Company/ Partnership	Status (Current/Previous)
		MVA Consultant Services Limited	Current
		Cartesuis AG	Previous
		Hadley Wood Jewish Community Limited	Previous
		NYFIX Inc.	Previous
Lynne Peacock	Non-Executive Director	Hawkins Residents Limited	Current
		Scottish Water	Current
		Scottish Water Business Stream Holdings Limited	Current
		Scottish Water Horizons Holdings Ltd	Current
		Standard Life plc	Current
		Standard Life Charitable Trust	Current
		National Australia Group Europe Limited	Previous
		MLC Savings Limited	Previous
		MLC Trust Management Company Limited	Previous
		National Australia Insurance Services Limited	Previous
		National Europe Holdings (Wealth Management) Limited	Previous
		National Wealth Management Europe Holdings Limited	Previous
		Clydesdale Bank plc	Previous
		MLC Nominees UK Limited	Previous
		Yorkshire Bank Home Loans Limited	Previous
		Tides Reach Management Company Limited	Previous
		Yorkshire and Clydesdale Bank Foundation	Previous

Name	Position	Company/ Partnership	Status (Current/Previous)
		St Vincent Investments Limited	Previous
		St Vincent Investments (London and South) Limited	Previous
		St Vincent Investments (North and Scotland) Limited	Previous
		St Vincent Investments (Properties) Limited	Previous
		St Vincent Investments (Developments) Limited	Previous
		Plaza Ventures Ltd	Previous
Michael Jary	Non-Executive Director	Duchy Originals Limited	Current
		OC&C Peleus Advisors LLP	Current
		OC&C Strategy Consultants International (Netherlands)	Current
		PCF Social Enterprises Limited	Current
		OC&C Strategy Consultants LLP	Current
		The Michael Jary Charitable Trust	Current
		Fair Trade Foundation	Current
		OC&C Resources Limited	Previous
		Duchy Originals Foods Limited	Previous
		OC&C Strategy Consultants Limited	Previous
Rita Clifton	Non-Executive Director	Populus Limited	Current
		Henley Festival Ltd	Current
		British United Provident Association Ltd (The)	Current
		Rita Clifton Limited	Current
		The Conservation Volunteers	Current

Name	Position	Company/ Partnership	Status (Current/Previous)
		TCV Trading 1 Limited TCV Trading 2 Limited	Current
		Brandcap Limited	Current
		BTCV	Current
		WWF-UK	Current
		Interbrand U.K. Limited	Previous
		Dixons Retail plc	Previous
		Thirty Club of London Ltd (The)	Previous
Graham Beale	Chief Executive	VISA Europe Ltd	Previous
		VISA Europe Services Inc	Previous
Mark Rennison	Group Finance Director	Arkose Funding Limited	Current
		Confederation Mortgage Services Limited	
		Exeter Trust Ltd	Current
		First Nationwide	Current
		LBS Mortgages Limited	Current
		Nationwide Anglia Property Services Limited	Current
		Nationwide Investments (No.1) Limited	Current
		Nationwide Lease Finance Limited	Current
		Nationwide Mortgage Corporation Limited	Current
		Nationwide Syndications Limited	Current
		NBS Fleet Services Limited	Current
		Staffordshire Leasing Limited	Current
		Nationwide Housing Trust Limited	Current
		Nationwide Pension Fund Nominee Limited	Previous
		Nationwide Pension Fund Trustee Limited	Previous

Name	Position	Company/ Partnership	Status (Current/Previous)
		The Mortgage Works (UK) plc	Previous
		UCB Home Loans Corporation Limited	Previous
		Nationwide BES Fund Managers Limited	Previous
		Portman Pension Trustees Limited	Previous
Tony Prestedge	Chief Operating Officer	Nationwide Anglia Property Services Limited	Current
		Opportunity Now	Current
		Dunfermline BS Nominees Limited	Current
		Monument (Sutton) Limited	Current
		The Derbyshire (Premises) Limited	Current
		The Nationwide Foundation	Previous
Chris Rhodes	Group Retail Director	at. home nationwide Limited	Current
		Derbyshire Home Loans Limited	Current
		E-Mex Home Funding Limited	Current
		Jubilee Mortgages Limited	Current
		The Mortgage Works (UK) plc	Current
		UCB Home Loans Corporation Limited	Current
		The Nationwide Foundation	Current
		Visa Europe Limited	Current
		Visa Europe Services Inc.	Current
		National Numeracy	Current
		Alliance & Leicester Public Limited Company	Previous

5.4 At the date of this Prospectus none of the Directors has at any time within at least the past 5 years:

(a) save as disclosed in this paragraph 5 "*Directors*", been director or partner of any companies or partnerships; or

(b) had any convictions in relation to fraudulent offences (whether spent or unspent); or

(c) been adjudged bankrupt or entered into an individual voluntary arrangement; or

(d) been a director of any company at the time of, or within 12 months preceding, any receivership, compulsory liquidation, creditors voluntary liquidation, administration, company voluntary arrangement or any composition or arrangement with that company's creditors generally or with any class of its creditors; or

(e) been a partner in a partnership at the time of, or within 12 months preceding, any compulsory liquidation, administration or partnership voluntary arrangement of such partnership; or

(f) had his assets form the subject of any receivership or been a partner of a partnership at the time of, or within 12 months preceding, any assets thereof being the subject of a receivership; or

(g) been subject to any official public incrimination and/or sanctions by any statutory or regulatory authority (including any designated professional body); or

(h) ever been disqualified by a court from acting as a director of a company or from acting in the management or conduct of the affairs of any company.

6. DIRECTORS' INTERESTS IN THE SOCIETY

6.1 None of the Directors nor their immediate families have any interests in the PIBS of the Society, which:

(a) have or will have been notified to the Society; or

(b) are interests of a connected person (within the meaning of Schedule 11B of FSMA) which would be required to be disclosed under (a) above and the existence of which is known to or could with reasonable diligence be ascertained by that Director, as at 6 November 2013 (the latest practicable date prior to the publication of this Prospectus) nor are expected to have any such interests immediately following Admission.

6.2 Save as disclosed in paragraph 7 "*Directors' service agreements, benefits and remuneration*" below, it is not expected that any Director will have any interest in the CCDS or loan capital of the Society on Admission and there is no person to whom any capital of any member of the Group is under option or agreed unconditionally to be put under option.

6.3 As at the date of this Prospectus there are no CCDS in existence and therefore no person holds voting rights representing 3 per cent. or more of the total voting rights in respect of the CCDS.

6.4 The Directors are not aware of any holdings of voting rights which will represent 3 per cent. or more of the total voting rights in respect of the issued CCDS of the Society following Admission.

6.5 The Society is the principal holding entity of the Group and the main business of the Group is conducted by the Society. As a mutual organisation, the Society has historically not had equity shareholders, but has been managed for the benefit of its members, being the majority of its retail savings and residential mortgage customers. 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 the member's investment or interest in the Society. Only a member of the Society is entitled to vote at general meetings.

6.6 None of the Directors has any potential conflicts of interest between their duties to the Society and their private interests and/or their duties to third parties.

6.7 The Society and the Directors are not aware of any arrangements, the operation of which may at a subsequent date result in a change in control of the Society.

7. DIRECTORS' SERVICE AGREEMENTS, BENEFITS AND REMUNERATION

This section provides information on the service agreements and remuneration arrangements for the Executive Directors and Non-Executive Directors.

The aggregate amount of remuneration paid (including any contingent or deferred compensation), and all benefits in kind granted to the Directors by the Society and its subsidiaries for services in all capacities for the financial year ended 4 April 2013 is £8.79 million.

7.1 Executive Directors

(a) ***Service agreements, remuneration and emolument***

A summary of the terms of the Executive Directors' service agreements with the Society is set out below:

	Date appointed to the Board	**Date of current agreement**
Graham Beale	21 March 2003	5 April 2003
Tony Prestedge	28 August 2007	8 August 2007
Mark Rennison	01 February 2007	1 February 2007
Chris Rhodes	20 April 2009	20 April 2009

The following remuneration (including salary, benefits and any contingent or deferred compensation) was paid to the Executive Directors for services in all capacities in the financial year ended 4 April 2013:

	Fixed remuneration			**Variable remuneration**				
	Salary per annum	**Benefits**	**Pension allowance**	**Annual Performance Pay**	**Medium Term Performance Pay**	**Contractual/ other settlements**	**Total Package**	**Total[3]**
	£'000	*£'000*	*£'000*	*£'000*	*£'000*	*£'000*	*£'000*	***£'000***
Graham Beale	825	127	330	400	576	-	2,258	**2,258**
Tony Prestedge	470	46	155	233	274	-	1,178	**1,178**
Mark Rennison	560	122	185	250	331	-	1,448	**1,448**
Chris Rhodes	470	36	155	210	274	-	1,145	**1,145**
Matthew Wyles[1][2]	318	41	111	-	-	1,373	470	**1,843**

1. Includes salary for Matthew Wyles until he retired from the Board on 3 December 2012.

2. Matthew Wyles' contractual settlement is made up of salary and benefits, including pensions allowance, for the period from 4 December 2012 to 30 April 2013, during which he was employed by the Society in an advisory capacity. In addition his settlement includes other payments he is entitled to including salary for the balance of his notice period, his 2012/13 annual bonus and his payment under the 2010/13 Medium Term Bonus Scheme.

3. Including accrued pension and settlements.

G J Beale requested to cap his variable pay for 2012/13 at levels no greater than 2012. Consequently, the Remuneration Committee reduced his potential annual and medium term bonuses by £209,088. Other than as aforementioned, there is no arrangement under which an Executive Director has waived or agreed to waive future emoluments nor have there been any such waivers during the financial year immediately preceding the date of this Prospectus.

(b) ***Termination provisions***

Executive Directors' terms and conditions of employment are detailed in their individual contracts which include a notice period of 12 months. Each contract includes a provision for a termination payment in lieu of notice of up to a maximum of 12 months' salary and benefits. In addition, a payment may be made in respect of the annual bonus scheme and existing medium-term bonus scheme awards depending on the circumstances and according to the rules of the plans.

7.2 Chairman and Non-Executive Directors

(a) ***Service agreements, remuneration and emolument***

Each of the Non-Executive Directors has agreed terms of appointment with the Society as follows:

	Date of Appointment	Retirement Date (Subject to periodic review)	Total fees for year ended 4 April 2013 £'000 (Note 1,2, 3)
Robert Walther	1 July 2002	19 July 2012	43
Susanna Taverne	16 November 2005	19 July 2012	27
Geoffrey Howe	1 January 2005	July 2015	300
Roger Perkin	20 April 2010	July 2017	122
Alan Dickinson	15 June 2010	July 2017	112
Mitchel Lenson	18 July 2011	July 2018	85
Lynne Peacock	18 July 2011	July 2018	96
Michael Jary	1 January 2009	July 2015	74
Rita Clifton	1 July 2012	July 2019	60

1. Robert Walther and Susanna Taverne retired from the Board on 19 July 2012.

2. In addition to his Non-Executive Director fees, R P Walther also received additional fees as Chairman of the Investment Sub-Committee/Investment adviser of the Nationwide Pension Fund (£15,000).

3. Geoffrey Howe has announced his intention to retire after the Society's annual general meeting in summer 2015.

4. Rita Clifton was appointed to the Board on 1 July 2012.

Non-Executive Directors do not take part in any performance pay plans or in any pension arrangement. Non-Executive Directors are paid a basic fee, with an additional supplement paid for serving on or chairing a Board Committee as follows:

Role	Fee *£'000*
Basic fee	60
Senior Independent Director	15
Chairman of the Audit Committee or Board Risk Committee	35
Member of the Audit Committee or Board Risk Committee	10
Remuneration Committee Chairman	25
Remuneration Committee member	10
Nomination Committee member	2.5
Chairman	300

Additional fees may be paid for other committee responsibilities during the year. Non-Executive directors do not take part in any bonus schemes or in any pension arrangement.

The Chairman's fee is reviewed and approved by the Remuneration Committee, and the fees paid to Non-Executive Directors are reviewed and approved by the Executive Directors and the Chairman. Fees are reviewed annually taking into account practice at other organisations as well as the time commitment for the role at the Society. Non-Executive Director fees were last reviewed in March 2013, at which point no changes were made.

There is no arrangement under which a Non-Executive Director has waived or agreed to waive future emoluments nor have there been any such waivers during the financial year immediately preceding the date of this Prospectus.

(b) *Termination provisions*

The Non-Executive Directors' service agreements make no provision for benefit payable in the event of termination.

7.3 Loans to Directors

Save as disclosed in this paragraph 7.3 "*Loans to Directors*", in Note 38 to the Consolidated Annual Financial Information and in Note 17 to the Consolidated Interim Financial Information, there are no outstanding loans or guarantees granted or provided by any member of Nationwide to, or for the benefit of, any of the Directors.

As at 30 September 2013, the Society had outstanding loans to Directors or persons connected to Directors totalling £0.8 million. All of these loans were granted in the normal course of business and were largely made up of residential mortgage loans and balances on credit cards. The Directors and other employees of the Society are eligible for discounts on residential mortgage loans.

The Society maintains a register containing the details of all loans, transactions and other arrangements made between its Directors (and persons connected with its Directors) and the Society or its subsidiaries. This register is available for inspection at the Society's annual general meetings and during normal business hours at the Society's principal office during the 15 days prior to the annual general meeting.

8. PENSION SCHEMES

Details of the Society's pension schemes are set out in Note 31 to the Consolidated Annual Financial Information.

The total amounts set aside or accrued by the Society or its subsidiaries to provide pension, retirement or similar benefits is £540 million as at 30 September 2013.

9. SIGNIFICANT SUBSIDIARY AND ASSOCIATED UNDERTAKINGS

The Society is the principal operating and holding entity of Nationwide.

The significant subsidiary undertakings and associated undertakings of the Society are as follows:

100% held subsidiary undertakings	Nature of business
Nationwide International Limited(1)(2)	Offshore deposit taker
Nationwide Syndications Limited	Syndicated lending
The Mortgage Works (UK) plc	Mortgage lender
Derbyshire Home Loans Limited(1)	Mortgage lender
E-Mex Home Funding Limited(1)	Mortgage lender
UCB Home Loans Corporation Limited(1)	Mortgage lender

Notes:

(1) Regulated entities subject to regulations which require them to maintain capital at agreed levels and so govern the availability of funds for distribution as dividends.

(2) The Board has endorsed a decision to change the status of Nationwide International Limited from a subsidiary to a branch. The Society expects this change to happen during its current financial year.

10. PROPERTY, PLANT AND EQUIPMENT

No single tangible fixed asset (including property, plant and equipment) accounts for more than 10 per cent. of Nationwide's net turnover or production.

11. UNDERWRITING ARRANGEMENTS

The Society, the Directors, and the Joint Bookrunners have entered into the Underwriting Agreement, pursuant to which:

(a) on the terms and subject to certain conditions described below:

(i) the Society has agreed, subject to certain conditions as are customary in an agreement of this nature, to issue, at the Offer Price, the CCDS to be issued in connection with the Offer; and

(ii) the Joint Bookrunners have severally agreed, subject to certain conditions as are customary in an agreement of this nature (including that the Society and Joint Bookrunners enter into a final terms memorandum confirming the number of CCDS to be issued in the Offer), to use reasonable endeavours to procure subscribers for the CCDS under the Offer and, failing which, to severally subscribe for themselves (in agreed proportions), the CCDS under the Offer;

(b) the Joint Bookrunners will deduct from the proceeds of the Offer a commission based on the number of CCDS allotted or sold pursuant to the Offer (together with any CCDS sold pursuant to any exercise of the Over-allotment Option), together with any applicable value added tax;

(c) the Society's obligation to issue CCDS under the Underwriting Agreement is, and the obligations of the Joint Bookrunners to use reasonable endeavours to procure subscribers for the CCDS under the Offer and failing which to severally subscribe for themselves (in agreed proportions), the CCDS under the Offer are subject to certain conditions that are customary for an agreement of this nature. These conditions include, amongst others, the absence of any breach of warranty under the Underwriting Agreement and Admission becoming effective by no later than 8 a.m. on 23 December 2013.

(d) the Society has granted the Stabilising Manager (on behalf of the Joint Bookrunners) the Over-allotment Option, pursuant to which the Stabilising Manager on behalf of the Joint Bookrunners may require the Society to make available additional CCDS of up to 15 per cent. of the aggregate number of CCDS available in the Offer (before any exercise of the Over-allotment Option) at the Offer Price to cover over-allotments, if any, made in connection with the Offer. The Over-allotment Option may be exercised, in whole or in part, at any time during the period commencing with the date of publication of the Statement and ending on the third business day immediately prior to the date of Closing. Save as required by applicable law or regulation, the Joint Bookrunners do not intend to disclose the extent of any over-allotments made and/or any stabilisation transactions carried out;

(e) the Society has agreed to pay the costs, charges, fees and expenses of the Offer (together with any related value added tax);

(f) the Society and the Directors have given customary representations, warranties and undertakings to the Joint Bookrunners and the Society has given customary indemnities to the Joint Bookrunners. The liabilities of the Society under the Underwriting Agreement are not limited as to time or amount. The liabilities of the Directors are limited as to time and amount; and

(g) the Society has agreed not to, save for limited exceptions and other than pursuant to the Offer, issue, offer, sell, issue options in respect of, contract to sell or otherwise dispose of, directly or indirectly, any CCDS or file any registration statement under the US Securities Act or file or publish any prospectus with respect to any of the foregoing, during the period beginning on the date of this Prospectus and continuing to and including the date 45 days after the date of Admission, without the prior written consent of the Joint Bookrunners.

12. MATERIAL CONTRACTS

Other than the Underwriting Agreement (as to which see paragraph 11 "*Underwriting arrangements*" above), there are no material contracts, other than contracts entered into in the ordinary course of business, to which the Society or any other member of the Group is a party that have been entered into in the two years preceding the date of this Prospectus. In addition, no other contract (except for the Underwriting Agreement), not being a contract entered into in the ordinary course of business, which contains any provision under which any member of the Group has an obligation or entitlement that is material to the Group, is outstanding at the date of this Prospectus.

13. LITIGATION AND ARBITRATION

Save as disclosed below, there are no governmental, legal or arbitration proceedings which may have or have had in the 12 months prior to the date of this Prospectus a significant effect on the financial position or profitability of the Society and/or the Group, nor, so far as the Society is aware, are any such proceedings pending or threatened.

Nationwide continues to experience a high volume of PPI complaints, a significant proportion of which relate to cases where there has been either no sale of a policy or no evidence of mis-selling. Nevertheless these cases and cases where Nationwide does settle PPI complaints involve Nationwide in considerable claims handling and resolution costs. As a result, Nationwide has recorded provisions against PPI costs of £nil in the six months to 30 September 2013, £53 million in the financial year ended 4 April 2013, £103 million in the financial year ended 4 April 2012 and £16 million in the financial year ended 4 April 2011.

14. RELATED PARTY TRANSACTIONS

Save as disclosed in note 38 to the Consolidated Annual Financial Information commencing on page 349 of this Prospectus and in Note 17 to the Consolidated Interim Financial Information set out on page 383 of this Prospectus, neither the Society nor any other member of the Group has entered into any related party transactions (which for these purposes are those set out in the standards adopted according to the Regulation (EC) No 1606/2002) with any related party during the period covered by the Consolidated Historical Financial Information and up to the latest practicable date prior to publication of this prospectus.

15. WORKING CAPITAL

In the opinion of the Society, the working capital available to the Group is sufficient for the Group's present requirements, that is, for at least the 12 months following the date of this Prospectus.

16. NO SIGNIFICANT CHANGE

There has been no significant change in the financial or trading position of the Group since 30 September 2013, the date to which the last reviewed consolidated financial statements of the Society set out in "*Part XVIII: Financial information*" were prepared.

17. CONSENT

17.1 PricewaterhouseCoopers LLP is a member firm of the Institute of Chartered Accountants in England and Wales and has given and not withdrawn its written consent to the inclusion of its accountants' report on the Historical Financial Information of Nationwide Building Society in *"Part XVIII: Financial information"* in the form and context in which it appears and has authorised the contents of that report for the purposes of item 5.5.3R(2)(f) of the Prospectus Rules.

17.2 The business address of PricewaterhouseCoopers LLP is 1 Embankment Place, Villiers Street, London WC2N 6RH, United Kingdom.

18. GENERAL

18.1 The total costs and expenses of, and incidental to, the issue of the CCDS, Admission and the Offer (including professional fees and expenses and the costs of printing and distribution of documents) are estimated to be an amount of up to approximately £22 million and are payable by the Society. Included within the total are commissions which are expected to be up to approximately £10 million payable to the Joint Bookrunners (assuming no exercise of the Over-allotment Option and that 5,000,000 CCDS will be issued at the Offer Price).

18.2 The total net proceeds accruing to the Society from the Offer after settling fees, expenses and commissions payable by the Society, are expected to amount to approximately £478 million.

18.3 The Society is dependent upon a licence from the OFT in order to carry on a consumer credit business, being the provision of credit by the Society, or the Society otherwise being a creditor, under credit agreements regulated by the Consumer Credit Act 1974 (as amended). Licences are currently granted for a period lasting five years. The Society is also dependent upon its authorisation under the FSMA, with permission to undertake, among other things, deposit-taking, mortgage, and certain investment activities. See generally "*Part XIX: Supervision and regulation*".

18.4 For the purposes of section 81A of the Act, the Consolidated Annual Financial Information and the Consolidated Interim Financial Information, set out in "*Part XVIII: Financial information*" do not constitute statutory accounts of the Society. Statutory accounts of the Society for each of the financial years ended 4 April 2013, 4 April 2012 and 4 April 2011 have been prepared and reported on by the Society's auditor under section 78 of the Act. Each of these auditor's reports was unqualified and contained no statement under section 79(6) of the Act (failure to obtain necessary information and explanations).

19. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during usual business hours on any weekday (Saturdays, Sundays and public holidays excepted) for a period of 12 months from the date of Admission at the Society's registered office at Nationwide House, Pipers Way, Swindon SN38 1NW, United Kingdom:

(a) the existing memorandum and rules of the Society;

(b) the report from PricewaterhouseCoopers LLP set out in Section A of "*Part XVIII: Financial information*";

(c) the Global CCDS Certificate and the Agency Agreement; and

(d) this Prospectus.

PART XXII – DEFINITIONS

The following definitions apply throughout this Prospectus unless the context requires otherwise. Definitions applying to the Conditions of issue of the CCDS are set out in paragraph 17 of "*Part VIII: Conditions of issue of the Core Capital Deferred Shares*".

2010 PD Amending Directive	Directive 2010/73/EU.
Act	the UK Building Societies Act 1986, as amended.
Admission	admission of the CCDS to the Official List and to trading on the main market for listed securities of the London Stock Exchange becoming effective in accordance with LR 3.2.7G of the Listing Rules and paragraph 2.1 of the Admission and Disclosure Standards published by the London Stock Exchange.
Agency Agreement	the agency agreement, as amended from time to time, to be entered into on the date of Closing between the Society and Citibank, N.A., London Branch.
Average Principal Amount	as defined in Condition 4.5 in *"Part VIII: Conditions of issue of the Core Capital Deferred Shares"*.
Banking Consolidation Directive	The Directive of the European Parliament and the Council of 14 June 2006 relating to the taking up and pursuit of the business of credit institutions (No 2006/48/EC).
Banking Reform Bill	the Financial Services (Banking Reform) Bill published on 4 February 2013, intended to give effect to the ICB's recommendations on structural and related non-structural reforms to the UK banking sector to promote financial stability and competition.
Banks	Barclays, J.P. Morgan Cazenove, BofA Merrill Lynch, Rothschild and UBS.
Barclays	Barclays Bank PLC, a company registered in England with company number 1026167 and authorised and regulated by the FCA.
Basel Accord	the current risk-adjusted capital guidelines.
Basel II	the capital requirements implemented by the EU Capital Requirements Directive, which comprises a Banking Consolidation Directive and a Capital Adequacy Directive implemented in March 2000 and recast in July 2006.
Basel III	a set of reform measures to the regulatory capital framework of the banking sector issued by the Basel Committee on Banking Supervision on 16 December 2010 and on 13 January 2011, and expected to be implemented in Europe over a number years commencing 1 January 2014.
BIPRU	The prudential sourcebook for banks, building societies and investment firms which sets out detailed prudential requirements for the companies that they regulate.
BMR	the Society's Base Mortgage Rate.
BofA Merrill Lynch	Merrill Lynch International, a company registered in England with company number 2312079 and authorised by the PRA and regulated by the FCA and PRA.

Cap	the prevailing periodic investment returns cap of the Society in respect of any given financial year, determined in accordance with the Rules.
Capital Adequacy Directive	The Directive of the European Parliament and the Council of 14 June 2006 on capital adequacy of investment firms and credit institutions (No 2006/49/ EC).
Capital Requirements Directive and Capital Requirements Regulation	as defined in Condition 17 in "*Part VIII: Conditions of issue of the Core Capital Deferred Shares*" in the definition of Capital Rules.
Capital Rules	as defined in Condition 17 in *"Part VIII: Conditions of issue of the Core Capital Deferred Shares"*.
CCDS	Core Capital Deferred Shares.
CCDS Register	the records of the Society maintained by the Registrar constituting the register of members for the purposes of the CCDS.
Clearing Systems	Euroclear, Clearstream, Luxembourg and any successor or replacement clearing systems approved by the Registrar.
Clearstream, Luxembourg	Clearstream Banking, société anonyme.
Closing	the crediting of the CCDS to Euroclear and Clearstream accounts.
CML Research	Council of Mortgage Lenders research based upon Bank of England data.
Common Equity Tier 1 capital	at any time, has the meaning ascribed thereto (or to any equivalent term) at such time in the Capital Rules.
Compliance Information	such information as the Society (or an agent on its behalf) may from time to time require investors and the intermediaries through which they hold their CCDS to provide to the Society, on a confidential basis, in order for the Society to establish its continued compliance with its obligations under Listing Rule 14.3.2R in connection with Listing Rule 14.2.2R and Article 48 of EU Directive 2001/34/EC as amended.
Conditions	the conditions of issue of the CCDS, as detailed in *"Part VIII: Conditions of issue of the Core Capital Deferred Shares"*.
Consolidated Annual Financial Information	Consolidated financial information of Nationwide for the financial years ended, and as at, 4 April 2011, 4 April 2012 and 4 April 2013, found in Section B of *"Part XVIII: Financial information"*.
Consolidated Historical Financial Information	The Consolidated Annual Financial Information and the Consolidated Interim Financial Information.
Consolidated Interim Financial Information	Nationwide's consolidated financial statements as, and for the six month periods ended, 30 September 2012 and 30 September 2013 found in Section C of "*Part XVIII: Financial information*".
Conversion Benefits	benefits under the terms of any future transfer of the Society's business to a company, other than rights to receive ordinary shares issued by the successor entity or its parent as specifically provided for under Condition 10.

Core Capital Contribution Proportion	as defined in Condition 4.4(b) in "*Part VIII: Conditions of issue of the Core Capital Deferred Shares*".
Core Capital Contribution Share	as defined in Condition 4.4(a) in *"Part VIII: Conditions of issue of the Core Capital Deferred Shares"*.
Core Tier 1 capital	at any time, has the meaning ascribed thereto (or to any equivalent term) at such time in the Capital Rules.
CPI	the UK Consumer Price Index.
CRA Regulations	Regulation (EC) No 1060/2009 on credit rating agencies, as amended.
CRD IV	the legislative package comprising Capital Requirements Directive and the Capital Requirements Regulation.
DBRS	DBRS Limited, a credit rating agency headquartered in Toronto, Canada. DBRS is not established in the European Union, and has not applied for registration under the CRA Regulation. However, the ratings of DBRS have been endorsed by DBRS Ratings Limited, a private limited company registered in England and Wales, in accordance with the CRA Regulation.
Directors or **Board**	the Executive and Non-Executive Directors of the Society.
Disclosure and Transparency Rules	the disclosure and transparency rules made by the FCA under Part VI of the FSMA.
Distributable Items	the aggregate of profits and reserves (if any) of the Society which are available, in accordance with applicable law and regulation for the time being, for payment of Distributions.
Distributions	periodic investment returns in respect of the CCDS that may be declared (on an interim and/or final basis) in respect of any financial year in the Board's sole and absolute discretion.
EEA	the European Economic Area.
Euroclear	Euroclear Bank S.A./N.V..
Eurozone or **EMU**	the European Monetary Union of those member states of the European Union that have adopted the euro as their common currency and sole legal tender.
Executive Directors	Graham Beale, Mark Rennison, Chris Rhodes, Tony Prestedge.
FATCA	the US Foreign Account Tax Compliance Act.
FCA	the UK Financial Conduct Authority.
FFMR	the FSCS Funding Model Review.
Fitch	Fitch Ratings Limited.
FSCS	the Financial Services Compensation Scheme.
FSMA	the UK Financial Services and Markets Act 2000, as amended.
Funding for Lending	the Bank of England's Funding for Lending Scheme.
GIIPS countries	Greece, Italy, Ireland, Portugal and Spain.

Global CCDS Certificate	the global certificate representing all CCDS upon issue.
Government	the government of the United Kingdom.
Group	the Society and its consolidated subsidiaries.
HBOS plc	HBOS plc (a member of Lloyds Banking Group), a company registered in Scotland and authorised by the PRA and regulated by the PRA and the FCA.
HSBC	HSBC Bank plc, a public company registered in England and Wales with company number 00014259 and authorised by the PRA and regulated by the PRA and FCA in the United Kingdom.
IASB	the International Accounting Standards Board.
ICB	the Government's Independent Commission on Banking.
IFRS	the international financial reporting standards issued by the IASB, as adopted by the European Commission for use in the European Union.
IRB	internal ratings-based approach to credit risk-weighting.
Joint Bookrunners	Barclays, J.P. Morgan, BofA Merrill Lynch and UBS.
J.P. Morgan	J.P. Morgan Securities plc, a company registered in England and Wales with company number 02711006 and authorised and regulated by the FCA and the PRA.
Listing Rules	the listing rules of the FCA relating to admission to the Official List.
Lloyds	Lloyds Bank plc, a company registered in England and Wales with company number 2065 and authorised by the PRA and regulated by the FCA and the PRA.
London Stock Exchange	London Stock Exchange plc.
Memorandum	the memorandum of the Society.
Minimum Transfer Amount	a set minimum transfer amount for CCDS prevailing from time to time.
Moody's	Moody's Investors Service Limited.
Nationwide	the Society and its consolidated subsidiaries.
Natwest	National Westminster Bank plc, a company registered in England and Wales with company number FN002362 and authorised and regulated by the FCA and the PRA.
Nominee	Citivic Nominees Limited, in whose name the Global CCDS Certificate will be registered, as nominee for Euroclear and Clearstream, Luxembourg (and such term shall include any successor or replacement nominee).
Non-Executive Directors	Geoffrey Howe, Roger Perkin, Rita Clifton, Michael Jary, Alan Dickinson, Mitchel Lenson, Lynne Peacock.

Offer	the offer to certain institutional and professional investors in the United Kingdom and elsewhere outside the United States in reliance on Regulation S under the Securities Act or another exemption from, or in a transaction not subject to, the registration requirements of the Securities Act as described in *Part VI: "Details of the Offer"*.
Offer Price	£100 per CCDS.
Official List	the Official List maintained by the FCA.
Over-allotment Option	the option pursuant to which the Stabilising Manager on behalf of the Joint Bookrunners may require the Society to make available additional CCDS of up to 15 per cent. of the aggregate number of CCDS available in the Offer, as described on page 2 and in "*Part VI: Details of the Offer"*.
PDMR	person discharging managerial responsibilities within the meaning of section 96B(1) of the FSMA.
PIBS	Nationwide's permanent interest bearing shares.
PPI	payment protection insurance.
PRA	the UK Prudential Regulation Authority.
Prospectus Directive	Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive to the extent implemented in the Relevant Member State) and includes any relevant implementing measure in each Relevant Member State.
Prospectus Rules	the prospectus rules of the FCA made under Part VI of the FSMA relating to offers of securities to the public and admission of securities to trading on a regulated market.
Registrar	Citibank N.A., London Branch.
Regulation S	Regulation S under the Securities Act.
Relevant Member State	each Member State of the European Economic Area that has implemented the Prospectus Directive.
Relevant Regulators	the PRA and/or the FCA as required in the circumstances.
Resulting Society	the amalgamated or transferee building society resulting from an amalgamation by the Society with another building society under section 93 of the Act or a transfer or all or substantially all of its engagements to another building society under section 94 of the Act.
Rothschild	N M Rothschild & Sons Limited, a company registered in England and Wales with company number 00925279 and authorised by the PRA and regulated by the FCA and the PRA in the United Kingdom and whose registered address is at New Court, St. Swithin's Lane, London EC4N 8AL.
Rules	the Rules of the Society.
S&P	Standard & Poor's Credit Market Services Europe Limited.

Santander UK	Santander UK plc, a public company registered in England and Wales with company number 2294747 and authorised by the PRA and regulated by the FCA and the PRA in the United Kingdom.
Securities Act	the US Securities Act of 1933, as amended.
SMEs	small and medium sized enterprises.
SMR	the Society's Standard Mortgage Rate.
Society	Nationwide Building Society, a building society incorporated in England and Wales under the Act and registered with the FCA on the Mutuals Public Register under number 355B.
Stabilising Manager	BofA Merrill Lynch.
Statement	means the statement expected to be published by the Society on or after 27 November 2013 but not later than 4 December 2013, in which the number of CCDS being issued under the Offer will be announced.
Successor Entity	upon a transfer of the Society of the whole of its business in accordance with section 97 of the Act to a company, that company becomes the Successor Entity.
Surplus	on a winding-up or dissolution of the Society, the surplus assets (if any) of the Society remaining following payment in full of the claims of all depositors and creditors (including subordinated creditors) of the Society (and, if applicable, after payment of the claim in respect of declared but unpaid Distributions).
The Nationwide Foundation	an independent registered charity (number 1065552) and company limited by guarantee, set up by the Society in 1997 as a separate legal entity, capable of carrying out all charitable purposes under English law.
TMW	The Mortgage Works (UK) plc.
UBS	UBS Limited, a private limited company registered in England and Wales with registered number 02035362 authorised by the PRA and regulated by the PRA and the FCA in the United Kingdom.
UBS Investment Bank	the investment banking arm of UBS Limited.
UK Corporate Governance Code	the UK Corporate Governance Code dated June 2010 issued by the Financial Reporting Council, as amended from time to time.
Underwriting Agreement	the Underwriting agreement entered into between the Society, the Directors and the Joint Bookrunners on 22 November 2013 and described in "*Part XXI: Additional information*".
United Kingdom or **UK**	the United Kingdom of Great Britain and Northern Ireland.
United States or **US**	the United States of America, its territories and possessions, any state of the United States of America and the District of Columbia.

Printed by RR Donnelley, 633337