PROSPECTUS dated 11 September 2017

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, as amended (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)

Issue of 5,000,000 Core Capital Deferred Shares of £1 each at an Issue Price of £159.00 per Core Capital Deferred Share

(the **Further CCDS**)

and admission of the Further CCDS to the Official List and to trading on the London Stock Exchange

such Further CCDS to be consolidated and form a single series immediately upon issue with the 5,500,000 CCDS issued by the Society on 6 December 2013

(the **Existing CCDS** and, together with the Further CCDS, the **CCDS**)

Joint Bookrunners

Barclays **BofA Merrill Lynch** **Citigroup**

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

Co-lead Managers

BNP PARIBAS **NatWest Markets**

AGGREGATE ISSUED CCDS IMMEDIATELY FOLLOWING THE ISSUANCE

CCDS of	**Number**
£1 each	10,500,000

Application has been made to the FCA for all of the Further CCDS of the Society to be issued 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 Further 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 14 September 2017 but not later than 21 September 2017.

Such Admission will be in addition to the 5,500,000 Existing CCDS of the Society which were admitted to the Standard Listing segment of the Official List maintained by the FCA and to trading on the London Stock Exchange's main market for listed securities on 9 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 in "*Part IV– Directors, Principal and Head Office and Advisers*" 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 31 to 65 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 financial instrument with many 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.

Notwithstanding the minimum transfer amount applicable to the CCDS, the minimum investment in Further CCDS pursuant to the Offer is 1,258 Further CCDS (reflecting a minimum total consideration of approximately £200,000 per investor at the Issue Price) (the **Minimum Investment**). For the avoidance of doubt, the Minimum Investment applies only to the purchase or subscription of Further CCDS in the Offer. With respect to any secondary market trading in the CCDS (including the Further CCDS) the minimum transfer amount of 250 CCDS will continue to apply.

The Issue Price quoted above is exclusive of any amount attributable to potential future Distributions and, in line with market convention for secondary market trading, the final price payable by investors will also include an amount attributable to potential future Distributions, being £2.408 (rounded to three decimal places) per CCDS. Accordingly, the purchase price of Further CCDS acquired pursuant to the Offer shall be £161.408 (rounded to three decimal places) per CCDS (the **Purchase Price**). However, investors should note that the CCDS are common equity tier 1 instruments and the Society has full discretion whether or not to declare Distributions (in contrast to interest on a debt instrument, there is no accrual of Distributions on CCDS). Whilst, under its Distribution Policy, the Board is currently targeting an interim Distribution of £5.125 per CCDS for payment in December 2017, the foregoing is not, and should not be construed as, a commitment to declare any such Distribution, and the Board shall be entitled, in its sole and absolute discretion, not to declare any such Distribution.

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 VII: *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.

Barclays Bank PLC (**Barclays**), Citigroup Global Markets Limited (**Citigroup**), J.P. Morgan Securities plc (**J.P. Morgan**), Merrill Lynch International (**BofA Merrill Lynch**), UBS Limited (**UBS** and, together with Barclays, Citigroup, J.P. Morgan and BofA Merrill Lynch, the **Joint Bookrunners**), BNP Paribas (**BNPP**) and The Royal Bank of Scotland plc (trading as NatWest Markets) (**NatWest Markets** and together with BNPP, the **Co-lead Managers**, and the Joint Bookrunners and the Co-lead Managers together, the **Banks**) each of which has been appointed as Joint Bookrunner or Co-lead Manager, as applicable, and each of which is 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. Each of the Banks other than BNPP is authorised by the Bank of England acting as Prudential Regulation Authority through its Prudential Regulation Committee (the **PRA**) and regulated by the PRA and the FCA in the United Kingdom. BNPP is lead supervised by the European Central Bank (**ECB**) and the *Autorité de Contrôle Prudentiel et de Résolution* (**ACPR**). BNPP is authorised by the ECB, the ACPR and the PRA and subject to limited regulation by the FCA and PRA.

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 whether to subscribe for Further CCDS pursuant to the Offer 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 Further CCDS pursuant to the Offer. 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, J.P. Morgan (as **Stabilisation Manager**) (or any person acting on behalf of the Stabilisation Manager) may over-allot CCDS 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. However, stabilisation may not necessarily occur. Any stabilisation action may begin on or after the date on which adequate public disclosure of the Issue Price was made and must end no later than the day falling 30 calendar days after the date of allotment of the Further CCDS. Any stabilisation action or over-allotment must be conducted by the Stabilisation Manager (or persons acting on behalf of the Stabilisation Manager) in accordance with all applicable laws and rules.

In connection with the Offer, the Society granted J.P. Morgan as Stabilisation Manager on behalf of the Banks an option (the **Over-allotment Option**), pursuant to which the Stabilisation Manager was entitled to require the Society to make available additional CCDS of up to 15 per cent. of the aggregate number of Further CCDS available in the Offer (before any exercise of the Over-Allotment Option) to cover over-allotments, if any, made in connection with the Offer. The Over-allotment Option was capable of being exercised, in whole or in part, at any time during the period commencing on the date on which adequate public disclosure of the Issue Price was made and ending on the London business day falling immediately prior to this Prospectus. The Over-allotment Option was not exercised, and accordingly no Further CCDS are to be issued as a result of the exercise of the Over-allotment Option.

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, THE TERMS OF THE OFFER AND THE TERMS OF THE CCDS, INCLUDING THE MERITS AND RISKS INVOLVED.

Each investor, by its subscription of any Further CCDS pursuant to the Offer, 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, accounting or tax advice. Each prospective investor should consult its own legal, financial, accounting or tax adviser for legal, financial, accounting 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 VII: 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.

Restrictions on marketing and sales to retail investors

The Further CCDS are financial instruments with many complex features, and will not be a suitable or appropriate investment for all investors. The offer, sale or distribution of CCDS to certain investors, including retail investors, may be restricted or prohibited by law in certain jurisdictions.

In particular, in June 2015, the UK Financial Conduct Authority (the **FCA**) published the Product Intervention (Contingent Convertible Instruments and Mutual Society Shares) Instrument 2015, which took effect from 1 October 2015 (the **Product Intervention Instrument**). Under the rules contained in the Product Intervention Instrument and Chapter 22.2 of the Conduct of Business Sourcebook (**COBS 22.2**) in the FCA's Handbook (as such rules may be amended or replaced from time to time, the **Product Intervention Rules**), there are restrictions on the sale of 'mutual society shares' (which would include the Further CCDS) to 'retail clients' in the European Economic Area (the **EEA**). For these purposes, a **retail client** is a person who is, or who if he were receiving services in the course of a firm carrying on a regulated activity would be, a client who is neither a 'professional client' nor an 'eligible counterparty' under the Markets in Financial Instruments Directive (2004/39/EC) (**MiFID**). Such restrictions may, absent an applicable exemption and depending on the nature of the relevant transaction with the retail client, require (amongst other things) the provision to the retail client of prescribed risk warnings, obtaining from the retail client certain confirmations and signed statements relating to the investment, limits on the amount of investments relative to a retail client's net assets and an assessment of whether the investment in the mutual society share is appropriate for the retail client.

The Society and the Banks are required to comply with the Product Intervention Rules and COBS 22.2. Given the nature of the restrictions contained in the Product Intervention Instrument and COBS 22.2, the Offer of Further CCDS described in the Prospectus is not made to retail clients (as that term is defined for the purposes of the Product Intervention Rules and COBS 22.2), and neither the Society nor the Banks will offer or sell Further CCDS to retail clients, nor will the Society or any Bank at any time take, or be required to take, any action which would facilitate an offer or sale of any CCDS to any retail client.

By purchasing, or making or accepting an offer to purchase, any Further CCDS (or a beneficial interest therein) from the Society and/or any Bank, each prospective investor represents, warrants, agrees with, and undertakes to, the Society and the Banks that:

1. it is not a retail client (as that term is defined for the purposes of the Product Intervention Rules and COBS 22.2) in the EEA;
2. whether or not it is subject to the Product Intervention Rules, it will not:
   (A) sell or offer the Further CCDS (or any beneficial interest therein) to retail clients (as that term is defined for the purposes of the Product Intervention Rules and COBS 22.2) in the EEA; or
   (B) communicate (including the distribution of the Prospectus) or approve an invitation or inducement to participate in, acquire or underwrite the Further CCDS (or any beneficial interests therein) where that invitation or inducement is addressed to or disseminated in such a way that it is likely to be received by a retail client (as that term is defined for the purposes of the Product Intervention Rules and COBS 22.2) in the EEA,

   in any such case other than:

   (i) in relation to any sale or offer to sell Further CCDS (or any beneficial interest therein) to a retail client in or resident in the United Kingdom (the **UK**), in circumstances that do not and will not give rise to a contravention of the applicable Product Intervention Rules or COBS 22.2 by any person; and/or
   (ii) in relation to any sale or offer to sell Further CCDS (or any beneficial interest therein) to a retail client in any EEA member state other than the UK, where (a) it has conducted an assessment and concluded that (1) the relevant retail client understands the risks of an investment in the Further CCDS (or such beneficial interest therein), including if appropriate through the provision of appropriate risk warnings and the obtaining of all appropriate confirmations and statements from the retail client, and (2) the relevant retail client is able to bear the potential losses involved in an investment in the Further CCDS and (b) it has at all times acted in relation to such sale or offer in compliance with MiFID to the extent it applies to it or, to the extent MiFID does not apply to it, in a manner which would be in compliance with MiFID if it were to apply to it; and
3. it will at all times comply with all applicable laws, regulations and regulatory guidance (whether inside or outside the EEA) relating to the promotion, offering, distribution and/or sale of the Further CCDS (and any beneficial interest therein), including (without limitation) any such laws, regulations and regulatory guidance relating to determining the appropriateness and/or suitability of an investment in the Further CCDS (or any beneficial interest therein) by investors in any relevant jurisdiction.

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

General

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 Further CCDS, or possession or distribution of this Prospectus or any other offering or publicity material relating to the Further CCDS, in any country or jurisdiction where action for that purpose is required. 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 13 "*Selling Restrictions*" of "*Part VII: Details of the Offer*". Each subscriber for CCDS will be deemed to have made the relevant representations set out therein.

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IMPORTANT INFORMATION

The CCDS are a financial instrument with many 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. The Offer of the Further CCDS is being conducted on a non-pre-emptive basis since all of the subscription price to be received by the Society is to be paid otherwise than in cash – see paragraph 11 "*Settlement of the Offer*" of "Part VII – *Details of the Offer*" of this Prospectus; 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 VIII: 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) 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 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, whilst there is an established secondary trading market for CCDS, there can be no assurance that such market will continue to operate. If a secondary market does continue to operate, 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 the secondary trading market, 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 Further 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 Further 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, including residential mortgage loans and personal unsecured lending; retail savings; general retail banking services; personal investment products; and insurance. In addition, Nationwide maintains an investment portfolio of debt securities for its own account. As at 4 April 2017, Nationwide held approximately 12.9 per cent. (according to Bank of England (**BoE**) data) of total UK residential mortgage balances and approximately 10.1 per cent. (as calculated by Nationwide based on BoE data) of total UK retail savings balances. Nationwide is the UK's second largest provider of mortgages and the third largest provider of savings. Substantially all of Nationwide's activities are in the United Kingdom. As at 4 April 2017, Nationwide had total assets of £222 billion. The Society is the largest building society by assets in the United Kingdom, with assets greater than 140 per cent. of 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 (including via mobile banking) 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 £351 billion. For the year to 31 December 2016, the equivalent figure was approximately £245 billion, in each case according to BoE data. However, the nature of competition is essentially unchanged with competition for new lending business remaining fierce. The majority of this is for residential purposes; there has been a softening in the buy to let market following stamp duty and other taxation reforms and in response to changes in underwriting standards. Competition in retail lending markets remains intense and the ongoing refinancing of Nationwide's existing mortgage stock, including base mortgage rate (BMR) balances continues in line with both recent experience and the Society's expectations. Nationwide currently expects its net interest margin to remain relatively stable in the financial year ending 4 April 2018, but with the potential for limited downward pressure, particularly if current levels of competition are sustained or intensify. The total balance of UK retail savings was £1,428 billion as at 31 December 2016 with balances having grown by 6.1 per cent. over the level as at 31 December 2015 and by 5.2 per cent. over the level as at 31 December 2014, according to BoE data. Nationwide expects to face continuing significant competition (including from National Savings and Investments, the Government-owned funding agency) for funding, particularly retail funding on which it is reliant, in the future. This competition could further increase, impacting Nationwide's funding costs and so

		adversely impact its results of operations and financial position. In the last few years, competition for UK retail deposits has increased as new participants, such as foreign banks, supermarkets, insurance and life assurance companies, National Savings and Investments (the Government-owned funding agency), challenger banks and direct online banking providers have entered the market by offering attractive rates of interest. These new entrants have caused the cost of attracting new retail deposits to increase for existing participants in the market and have impacted the flow of new retail deposits. Nationwide believes that increased consumer awareness driven by the press and increased competition has created potentially greater volatility of retail deposit balances both between different organisations and between different accounts within organisations. This, in turn, has resulted in a reduction in the differential between rates paid on existing and new balances as customers transfer to high rate accounts and organisations aim to retain existing balances. In addition, significant regulatory changes are presently being implemented which are designed to support the emergence of "Open Banking", the aim of which is to create more transparency and fairness in the UK banking and financial services market through greater competition and innovation. Open Banking has the potential to significantly disrupt traditional personal financial services models and to radically reshape the banking landscape in the UK.
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 4 April 2017 are set out below: **Wholly-owned subsidiary undertakings** — **Nature of business** Nationwide Syndications Limited — Syndicated lending The Mortgage Works (UK) plc(1) — Centralised mortgage lender Derbyshire Home Loans Limited(1) — Centralised mortgage lender E-Mex Home Funding Limited(1) — Centralised mortgage lender UCB Home Loans Corporation Limited(1) — Centralised mortgage lender Note: (1) Regulated entities subject to regulations which require them to maintain capital at agreed levels and so govern the availability of funds for distribution as dividends.
B.6	Major Interests in the Society and Voting Rights	As a mutual organisation, Nationwide is managed for the benefit of its members, who are its current account, retail savings and residential mortgage customers (as well as the holders of its deferred shares, including the permanent interest bearing shares, additional tier 1 instruments and CCDS issued by the Society). In contrast to general meetings of shareholders of a limited company where shareholders may exercise voting rights proportionate to the number of shares they hold, at a general meeting of the members of the Society each member is entitled to one vote regardless of the size of 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 years ended, and as at, 4 April 2017, 4 April 2016 and 4 April 2015, which has been extracted without material adjustment from the Consolidated Financial Statements.

INCOME STATEMENT DATA

	Financial year ended 4 April		
	2017	**2016**	**2015**
		(£ millions)	
Interest receivable and similar income..	5,050	5,294	5,347
Interest expense and similar charges.....	(2,090)	(2,208)	(2,475)
Net interest income	**2,960**	**3,086**	**2,872**
Fee and commission income.................	446	428	447
Fee and commission expense................	(221)	(192)	(169)
Income from investments......................	—	3	4
Other operating income	100	8	9
Gains/(losses) from derivatives and hedge accounting	66	39	(20)
Total income	**3,351**	**3,372**	**3,143**
Administrative expenses	(2,021)	(1,847)	(1,706)
Impairment loss on loans and advances to customers	(131)	(81)	(233)
Impairment losses/(recoveries) on investment securities	(9)	8	(18)
Provisions for liabilities and charges	(136)	(173)	(142)
Profit before tax	**1,054**	**1,279**	**1,044**
Taxation	(297)	(294)	(205)
Profit after tax	**757**	**985**	**839**

STATEMENT OF COMPREHENSIVE INCOME DATA

	Financial year ended 4 April		
	2017	**2016**	**2015**
		(*£ millions*)	
Profit after tax	**757**	**985**	**839**
Other comprehensive (expense)/income			
Items that will not be reclassified to the income statement			
Remeasurements of retirement benefit obligations:			
Remeasurements before tax	(347)	42	(136)
Taxation	92	9	21
	(255)	51	(115)
Revaluation of property:			
Revaluation before tax	1	4	5
Taxation	2	(7)	1
	3	(3)	6
Other items through the general reserve, including effect of corporation tax rate change	(1)	(1)	(1)
	(253)	**47**	**(110)**
Items that may subsequently be reclassified to the income statement			
Cash flow hedge reserve:			
Fair value movements taken to members' interests and equity	1,671	2,099	(503)
Amount transferred to income statement	(2,019)	(1,666)	664
Taxation	101	(132)	(32)
	(247)	**301**	**129**
Available for sale reserve:			
Fair value movements taken to members' interests and equity	176	(60)	(79)
Amount transferred to income statement	(106)	19	183
Taxation	(18)	7	(27)
	52	**(34)**	**77**
Other comprehensive (expense)/income	**(448)**	**314**	**96**
Total comprehensive income	**309**	**1,299**	**935**

BALANCE SHEET DATA

	As at 4 April		
	2017	**2016**	**2015**
		(*£ millions*)	
Assets			
Cash	13,017	8,797	4,325
Loans and advances to banks	2,587	3,591	3,392
Available for sale investment securities	9,764	10,612	11,037
Derivative financial instruments	5,043	3,898	3,337
Fair value adjustment for portfolio hedged risk	746	756	592
Loans and advances to customers	187,371	178,807	170,647
Investments in equity shares	67	126	26
Intangible assets	1,230	1,191	1,040
Property, plant and equipment	851	823	856
Investment properties	8	8	8
Accrued income and expenses prepaid	191	166	192
Deferred tax assets	103	35	38
Other assets	692	129	90
Total assets	**221,670**	**208,939**	**195,580**
Liabilities			
Shares	144,542	138,715	132,373
Deposits from banks	8,734	2,095	1,974
Other deposits	6,459	7,635	9,076
Due to customers	2,376	6,201	6,119
Fair value adjustment for portfolio hedged risk	8	13	14
Debt securities in issue	40,339	36,085	28,105
Derivative financial instruments	3,182	3,463	4,048
Other liabilities	391	414	475
Provisions for liabilities and charges	387	343	295
Accruals and deferred income	333	288	369
Subordinated liabilities	2,905	1,817	2,121
Subscribed capital	276	413	415
Deferred tax liabilities	100	186	53
Current tax liabilities	82	128	116
Retirement benefit obligations	423	213	286
Total liabilities	**210,537**	**198,009**	**185,839**
Members' interest and equity			
Core capital deferred shares	531	531	531
Other equity interests	992	992	992
General reserve	9,316	8,921	7,995
Revaluation reserve	67	64	68
Cash flow hedge reserve	183	430	129
Available for sale reserve	44	(8)	26
Total members' interests and equity	**11,133**	**10,930**	**9,741**
Total members' interests, equity and liabilities	**221,670**	**208,939**	**195,580**

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 Financial Statements.

	As at/financial year ended 4 April		
	2017	2016	2015
	(*£ millions, except percentages*)		
Capital ratios[1]			
Common equity tier 1 ratio	25.4%	23.2%	19.8%
Total tier 1 capital ratio	28.4%	26.1%	22.5%
Total regulatory capital ratio	36.1%	30.9%	27.0%
CRR leverage ratio	4.2%	4.2%	4.1%
UK leverage ratio	4.4%	4.4%	N/A
Other financial data			
Ratio of administrative expenses to mean total assets[2]	0.94%	0.91%	0.81%
Profit before tax (underlying)	1,030	1,337	1,227
Profit before tax (statutory)	1,054	1,279	1,044
Cost income ratio (underlying)	60.2%	53.9%	51.4%
Cost income ratio (statutory)	60.3%	54.8%	54.3%
Return on average total assets[3]	0.35%	0.49%	0.44%
Net interest margin[4]	1.33%	1.52%	1.47%

Notes:

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

(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 .

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's statutory profit before tax was £1,054 million for the financial year ended 4 April 2017 (compared to £1,279 million for the financial year ended 4 April 2016 and £1,044 million for the financial year ended 4 April 2015) and underlying profit before tax was £1,030 million for the financial year ended 4 April 2017 (compared to £1,337 million for the financial year ended 4 April 2016 and £1,227 million for the financial year ended 4 April 2015), reflecting Nationwide's continued focus on offering value on its products and better service for its members, whilst maintaining an appropriate capital position.

An advantage of being a building society is that Nationwide can choose to forgo an element of profitability in order to deliver more value to its members, whilst ensuring that it maintains financial strength. In 2016, Nationwide introduced a financial performance framework with parameters which allow it to calibrate future performance and help ensure that it achieves the right balance between distributing value to members, investing in the business and maintaining financial strength. The most important of these parameters is underlying profit which is a key component of Nationwide's capital. In this context, Nationwide currently believes that generating underlying profit of approximately £0.9 billion to £1.3 billion per annum over the medium-term is an appropriate target for capital planning purposes. This range is

		based on its current assumptions around the size of the mortgage market and maintaining a UK leverage ratio in excess of 4.0 per cent. This range, which will vary from time to time, should not be construed as a forecast of the likely level of Nationwide's underlying profit for any financial year or period within a financial year. Despite the reduction in profitability for the financial year ended 4 April 2017, underlying profit remained comfortably within the target range set for capital planning purposes by Nationwide's financial performance framework. Nationwide's underlying cost income ratio deteriorated to 60.2 per cent. for the financial year ended 4 April 2017 (from 53.9 per cent. in for the financial year ended 4 April 2016 and 51.4 per cent. in for the financial year ended 4 April 2015) primarily due to increased costs against relatively stable total underlying income. Nationwide's impairment losses increased for the financial year ended 4 April 2017 following a review of the secured and unsecured lending portfolios to ensure that the evidence of impairment and latent risks during the low interest rate environment are adequately represented in the model assumptions, and that appropriate provisions are held for interest only loans where borrowers may be unable to repay capital balances at maturity. Nationwide's impairment losses for the financial year ended 4 April 2016 were significantly lower than in for the financial year ended 4 April 2015, primarily as a result of improvement in asset quality and divestment of part of its commercial real estate loan portfolio. Nationwide's total assets grew by £12.7 billion to £222 billion as at 4 April 2017, largely due to a £9.1 billion increase in residential mortgages. Of this, £8.0 billion related to prime mortgages and reflects a strong trading performance aligned to Nationwide's strategic objective of increasing its market share of prime mortgages. The remainder of the balance sheet growth for the financial year ended 4 April 2017 was driven by an increase in high quality liquid assets as Nationwide replaced off-balance sheet FLS (the Bank of England's Funding for Lending Scheme) liquidity with on-balance sheet Term Funding Scheme liquidity. Nationwide's total assets grew by £13 billion to £209 billion as at 4 April 2016. This was largely attributable to £9.3 billion growth in residential mortgage lending. The remaining growth was driven by an increase in high quality liquid assets, with Nationwide's liquidity coverage ratio increasing to 142.6 per cent. as at 4 April 2016 from 119.3 per cent. as at 4 April 2015. Nationwide reported common equity tier 1 and UK leverage ratios of 25.4 per cent. and 4.4 per cent. respectively as at 4 April 2017 (compared to 23.2 per cent. and 4.4 per cent. respectively as at 4 April 2016 and a CET1 ratio of 19.8 per cent. as at 4 April 2015). Nationwide's UK leverage ratio, which was introduced by the PRA in 2016, remained unchanged as profits broadly offset the increase in the defined benefit pension deficit and balance sheet growth driven by increases in mortgage balances. There has been no significant change in the Group's financial condition or operating results since 4 April 2017, the date to which the last audited consolidated financial information of the Group was prepared.
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 reports incorporated by reference 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	5,000,000 CCDS (the **Further CCDS**) are expected to be issued pursuant to the Offer, representing approximately 47.619 per cent. of the issued CCDS immediately following Admission. In connection with the Offer, the Society granted J.P. Morgan Securities plc (**J.P. Morgan**) as stabilisation manager on behalf of Barclays Bank PLC, Citigroup Global Markets Limited, J.P. Morgan, Merrill Lynch International and UBS Limited (the **Joint Bookrunners**) and BNP Paribas and The Royal Bank of Scotland plc (trading as NatWest Markets) (together with the Joint Bookrunners, the **Banks**) an over-allotment option, pursuant to which the Joint Bookrunners were entitled to require the Society to make available up to 750,000 additional CCDS (representing up to 15 per cent. of the aggregate number of Further CCDS available in the Offer, excluding any available in the over-allotment option) to cover over-allotments, if any, made in connection with the Offer (the **Over-allotment Option**). The Over-allotment Option was capable of being exercised, in whole or in part, at any time during the period commencing on the date on which adequate public disclosure of the Issue Price was made and ending on the London business day falling immediately prior to this Prospectus. The Over-allotment Option was not exercised, and accordingly no Further CCDS are to be issued as a result of the exercise of the Over-allotment Option. The CCDS (including the Further CCDS upon issue) have been allocated ISIN number GB00BBQ33664. The CCDS have been designed for building societies (which do not have ordinary share capital) to allow them to raise Common Equity Tier 1 capital under applicable capital regulations.
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 5,500,000 CCDS currently in issue at the date of this Prospectus (the **Existing CCDS**). The Further CCDS will upon issue be consolidated and form a single series with the Existing CCDS. Pursuant to the Offer, 5,000,000 Further CCDS of £1 nominal each will be issued fully paid, resulting in an aggregate number CCDS outstanding of 10,500,000. The issue price of the Further CCDS is £159.00 per Further CCDS. The Purchase Price of the Further CCDS (as defined below) is £161.408 (rounded to three decimal places) per Further CCDS, representing £1 of nominal amount and £160.408 (rounded to three decimal places) of premium per Further CCDS. The issue price quoted above is exclusive of any amount attributable to potential future Distributions and, in line with market convention for secondary market trading, the final price payable by investors will also include an amount attributable to potential future Distributions, being £2.408 (rounded to three decimal places) per CCDS. Accordingly, the purchase price of Further CCDS acquired pursuant to the Offer shall be £161.408 (rounded to three decimal places) per CCDS (the **Purchase Price**). However, investors should note that the CCDS are common equity tier 1 instruments and the Society has full discretion whether or not to declare Distributions (in contrast to interest on a debt instrument, there is no accrual of Distributions on CCDS). Whilst, under its Distribution Policy, the Board is currently targeting an interim Distribution of £5.125 per CCDS for payment in December 2017, the foregoing is not, and should not be construed as, a commitment to declare any such Distribution, and the Board shall be entitled, in its sole and absolute discretion, not to declare any such Distribution.
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 (A) all amounts in respect of all liabilities of the Society to creditors (including subordinated creditors) and other investing members of the Society and (B) any amounts payable under (i) above (**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 (the **Core Capital Contribution Proportion**); 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 (the **Average Principal Amount**), 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 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).

As at the date of this Prospectus, the Core Capital Contribution Proportion is 8.59 per cent. and the Average Principal Amount is £100 per CCDS. Following the issue of the Further CCDS, the Core Capital Contribution Proportion and the Average Principal Amount will be recalculated in accordance with Condition 4 of the CCDS. Based on the issue size of 5,000,000 Further CCDS and the Purchase Price of £161.408 (rounded to three decimal places) per Further CCDS and having regard to Conditions 4.4, 4.5 and 4.6 of the CCDS, the Society indicatively expects the Core Capital Contribution Proportion will increase to approximately 16.29378 per cent. and the Average Principal Amount will increase to approximately £129.24 per CCDS as a result of the issue of the Further CCDS. The recalculated Core Capital Contribution Proportion and Average Principal Amount will be published on the Society's website as soon as reasonably practicable and in accordance with Condition 4.

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 Further 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 (the Existing CCDS already being so listed and admitted). 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 (the **Distribution Policy**) in respect of periodic investment returns (**Distributions**) to be declared in respect of the CCDS. The Distribution Policy is entirely discretionary, and the

		Board may elect to amend or depart from such policy at any time. 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. As set out in its Distribution Policy at the date of this Prospectus, the Society is currently targeting an interim Distribution of £5.125 per CCDS paid in December during the relevant financial year and a final Distribution of £5.125 per CCDS paid in June immediately following the relevant financial year. Accordingly, as at the date of this Prospectus, the Society is currently targeting an interim Distribution of £5.125 per CCDS to be paid in December 2017. 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. Further, the Board may amend its Distribution Policy at any time.

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's operating results, financial condition and prospects are significantly affected by the general economic conditions in the UK economy and the economic confidence of consumers and businesses. There remains a risk that if low inflation or deflation becomes entrenched in the UK, consumer spending and wage growth will be dampened. The durability of the UK economic recovery remains uncertain and there is potential for activity and prices to decline should the labour market deteriorate markedly, or if strains in the financial system re-emerge and impair the flow of credit to the wider economy. • Worsening economic conditions in the UK could lead to a decline in the credit quality of Nationwide's borrowers and counterparties, which could reduce the recoverability and value of Nationwide's assets and require an increase in its level of provisions for bad and doubtful debts. • Conversely, a strengthened UK economic performance may increase the possibility of a higher interest rate environment. In such a scenario, other market participants might offer more competitive product pricing resulting in increased customer attrition for Nationwide. Under such conditions, Nationwide may also experience an increase in its cost of funding. In addition, rising interest rates would put pressure on borrowers whose loans are linked to the Bank of England base rate because such borrowers may experience financial stress in repaying at increased rates in the future, which could lead to higher retail loan losses. • Nationwide is directly and indirectly subject to inherent risks arising from general economic conditions in the UK and other economies, particularly the Eurozone. Any future significant disruptions could negatively affect, among other things, consumer confidence; levels of unemployment; the state of the UK housing market and the commercial real estate sector; bond and equity markets; counterparty risk; the availability and cost of credit; transaction volumes in wholesale and retail markets including the availability and duration of funding in wholesale markets; the liquidity of the global financial markets; and market interest rates, which in turn could have a material adverse effect on Nationwide's business, operating results, financial conditions and prospects. • Although, globally and in the UK, economic and financial market conditions have generally stabilised in recent years, there have been periods of significant volatility in financial markets around the world. Continued or worsening disruption and volatility in the global financial markets could adversely affect Nationwide's ability to access capital and liquidity on financial terms acceptable to it, if at all, which could force Nationwide to raise the rates its pays on deposits to attract more customers and make it unable to maintain certain liability maturities, which could materially adversely affect its interest margins, liquidity and profitability. • There are a number of uncertainties in connection with the future of the UK and its relationship with the European Union. Among other consequences, the UK's withdrawal from the European Union could materially change the legal framework applicable to Nationwide's operations, including in relation to its regulatory capital requirements and could result in restrictions on the

movement of capital and the mobility of personnel. Any of these factors could result in higher operating costs or otherwise adversely affect Nationwide's business, financial condition and results of operations.

- The prevailing level of interest rates affects Nationwide's results of operations, financial condition and return on capital. The personal sector in the UK remains heavily indebted and vulnerable to increases in unemployment, rising interest rates and/or falling house prices. In an increasing interest rate environment, borrowers seeking to avoid increased monthly payments by refinancing their mortgage loans may no longer be able to find available replacement loans at comparably low interest rates. Increased unemployment could lead to borrowers who are made redundant being unable to service the loan payments in a timely fashion which would result in higher levels of arrears in Nationwide's retail loan portfolios which, in turn, would lead to an increase in its impairment charges in respect of these portfolios. Declines in housing prices may also leave borrowers with insufficient equity in their homes to permit them to refinance.

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

Financial services industry risks

- Nationwide depends on retail depositors for the majority of its funding. 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. Increases in the cost of retail funding in the wake of the financial crisis together with the low base rate environment have had a negative impact on Nationwide's margins and profit and these pressures could re-emerge and, in extreme circumstances, a loss of consumer confidence could result in high levels of withdrawals from Nationwide's retail deposit base, which could, given Nationwide's dependence on retail deposits and its limited ability to diversify its business due to current building society legislation, have a material adverse effect on Nationwide's business, financial position and results of operations.

- Like all major financial institutions, Nationwide is also dependent on the short- and long-term wholesale funding markets for liquidity. If access to this liquidity is constrained for a prolonged period of time, this could affect Nationwide's profitability. Under extreme and unforeseen circumstances a prolonged and severe restriction on Nationwide's access to liquidity (including as a result of the withdrawal of government and central bank funding and liquidity support) could affect its ability to meet its financial obligations as they fall due; meet its regulatory minimum liquidity requirements; or fulfil its commitments to lend. In such extreme circumstances Nationwide may not be in a position to continue to operate without additional funding support.

- 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.

- Increased digital interconnectivity across the Group, its customers and suppliers, and the need for resilient IT systems, including hardware and software, and cyber-security, remains an evolving risk to financial institutions including Nationwide. Although Nationwide maintains measures designed to ensure the integrity and resilience of key systems and processes, it may be the victim of cyber-attacks, including denial of service attacks which could significantly disrupt Nationwide's operations and the services it provides to its customers or attacks designed to obtain an illegal financial advantage. Any such attack or any other failure in Nationwide's IT systems could, amongst other things, cause significant financial loss and reputational damage to the Society, and could result in a loss of confidence in the Society, potentially resulting in existing customers withdrawing deposits and/or deterring prospective new customers.

Regulatory risks

- Nationwide is exposed to risks relating to the mis-selling of financial products, including as a result of having sales practices and/or rewards structures that are deemed to have been inappropriate, and acting in breach of legal or regulatory principles. Any failure to manage these risks adequately could lead to significant liabilities and/or reputational damage. 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.

- A range of legislative and regulatory changes have been made by regulators and other bodies in the UK and the EU, including implementation of the payment accounts directive and changes to the markets in financial instruments directive, which could impose operational restrictions on Nationwide, causing Nationwide to raise further capital, increase its expenses and/or otherwise adversely affect its business results, financial condition or prospects. The financial sector has seen an unprecedented volume and pace of regulatory change in the years following the global financial crisis, and 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.

- Nationwide is subject to regulatory capital and liquidity requirements that significantly impact its operations. Changes to the regulatory capital and liquidity requirements under which Nationwide operates could hinder growth by prescribing more stringent requirements than those with which it currently complies. UK regulators and international policymakers are reviewing a number of areas of the regulatory capital framework, with a view to making changes as appropriate. These areas include a minimum requirement for own funds and eligible liabilities, capital requirements for residential mortgages and review of the IRB model framework and use of the standardised approaches for credit and operational risks.

Competition risks

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

- Competition may intensify in response to consumer demand, technological changes, the impact of consolidation by Nationwide's competitors, regulatory actions and other factors. Nationwide also faces potential competition from new banks in the UK, such as TSB, from banking businesses developed by large non-financial companies, such as Tesco and Virgin Money, from "challenger bank" entrants, such as Metro Bank and Aldermore, and from fundamentally new entrants into the UK banking sector, such as peer-to-peer lending platforms. If increased competition occurs as a result of these or other factors, Nationwide's business, financial condition and results of operations could be materially adversely affected.

- The implementation of the Independent Commission on Banking's recommendation to separate retail banking activities from wholesale and investment banking activities to be carried out by large banking groups operating in the UK by no later than 2019 could reduce the distinctiveness of the building society model, which Nationwide considers to be a competitive advantage. This may, in time, alter the business models of ring-fenced banks and may therefore alter adversely the competitive position of Nationwide and other mutual institutions.

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

- The implementation of Open Banking could result in the emergence of new disruptors and competitors, potentially with substantially different business models, that could materially alter the banking environment. Such changes could affect Nationwide's ability to attract and retain customers, which in turn could potentially adversely affect liquidity and increase Nationwide's funding costs over time. Whilst Nationwide is investing in developing Open Banking solutions to support members' needs and to mitigate this risk, there can be no

		assurance that its efforts will be successful or that Nationwide will be able to compete effectively with existing competitors and/or new entrants to attract and retain customers.
D.3	Key Information on the Key Risks that are specific to the CCDS	• The CCDS are a financial instrument with many 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, whilst there is an established secondary market for CCDS, there can be no assurance that such a market will be or remain 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.

		• In practice, the CCDS holders will not have voting rights at general meetings of the members of the Society unless (which is considered unlikely) the Clearing Systems close, and even then voting rights would be insignificant. 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 of the Society (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 or other instruments 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 Further CCDS, there are a number of circumstances in which such rights may be disapplied.

Section E – Offer

E.1	Net Proceeds and Estimated Expenses	As described at section "*E.3 - Terms and Conditions of the Offer*" of this Summary below, instead of receiving cash as consideration for the issue of the Further CCDS, the Society will issue the Further CCDS in consideration for J.P. Morgan (the **Subscriber**) transferring its holdings of redeemable preference shares in Stockwood Finance (Jersey) Limited (**Stockwood Finance**) to the Society. Accordingly, immediately following the issue of the Further CCDS, the Society will own the entire issued ordinary and redeemable preference share capital of Stockwood Finance, whose only assets will be its cash reserves and a receivable due from the Society in respect of the commissions and expenses payable to the Banks, which assets will represent in aggregate an amount approximately equal to the gross proceeds of the issue of the Further CCDS. The Society will be able to utilise this amount if Stockwood Finance elects to redeem the redeemable preference shares or to advance the funds to the Society by way of loan in the interim. The total net proceeds from the Offer (after settling fees, expenses and commissions payable by the Society of approximately £12 million), are expected to amount to approximately £795 million. The estimated net proceeds are based on the issue of 5,000,000 Further CCDS at the Purchase Price.
E.2a	Reasons for the Offer, Use of Proceeds and Estimated Amount of Proceeds	The estimated net proceeds from the issue of the Further CCDS are expected to be approximately £795 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. The Society's regulatory capital mainly comprises retained profit which has been built up over many years (Nationwide has made an annual profit for over 95 years). From time to time, this

		has been supplemented by issuing capital instruments to external investors, including Permanent Interest Bearing Shares, additional tier 1 instruments, tier 2 instruments and, in 2013, CCDS. CCDS constitute Common Equity Tier 1 (**CET1**) capital – the highest quality form of capital available to building societies. Nationwide's capital position is stable and well in excess of regulatory requirements. With a CET1 ratio of 25.4 per cent. and a UK leverage ratio of 4.4 per cent. at 4 April 2017, the Society is well capitalised, both in absolute terms and relative to current and foreseeable requirements. The Society intends to continue to manage its CET1 capital base via retained earnings, supplemented by CCDS when appropriate. Accordingly, CCDS are a strategically important instrument for the Society. The Society's reasons for issuing Further CCDS at this time are to re-affirm the relevance to the Society of CCDS, to demonstrate its continued access to inorganic CET1 capital and to seek to increase the liquidity of its CCDS. It does not indicate any intention to enter into any acquisition, merger or similar transaction. Whilst Nationwide does not need to issue the Further CCDS to meet its regulatory capital requirements, the issuance will further bolster the Society's CET1 capital, helping to support its strategic growth ambitions and to maintain its capital at prudent levels having regard to its present and anticipated future capital requirements.
E.3	Terms and Conditions of the Offer	Under the Offer the Further 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 the Further 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 Further CCDS, or possession or distribution of the Prospectus or any other offering or publicity material relating to the Further CCDS, in any country or jurisdiction where action for that purpose is required. The Further CCDS are not intended to be sold and should not be sold to 'retail clients' in the European Economic Area, as defined in the rules set out in the Product Intervention (Contingent Convertible Instruments and Mutual Society Shares) Instrument 2015 and related rules, as amended or replaced from time to time, other than in circumstances that do not and will not give rise to a contravention of those rules by any person. The offer of Further CCDS described in this Prospectus is not being made to any such 'retail clients', and neither the Society nor the Banks will offer or sell Further CCDS to any such 'retail clients'. Settlement of the Offer is expected to occur on 14 September 2017 or shortly thereafter (and no later than 21 September 2017). On the settlement date, the securities accounts of Euroclear and Clearstream, Luxembourg will be credited with the Further CCDS issued pursuant to the Offer. The Offer of the Further CCDS is being conducted on a non-pre-emptive basis. The settlement of the Offer will proceed on the following basis. The Society has agreed to subscribe for ordinary shares in Stockwood Finance. The Subscriber (or an agent appointed for such purpose) will receive monies from the investors in the Further CCDS. Provided

certain conditions are met, the Subscriber will use the proceeds to subscribe for redeemable preference shares in Stockwood Finance. The Society will issue the Further CCDS in consideration for the Subscriber transferring its holdings of redeemable preference shares in Stockwood Finance to the Society. Accordingly, instead of receiving cash as consideration for the issue of the Further CCDS, at the conclusion of the Offer, the Society will own the entire issued share capital of Stockwood Finance. The assets of Stockwood Finance at that time will be its cash reserves and a receivable due from the Society in respect of the commissions and expenses payable to the Banks, which assets will in aggregate represent an amount approximately equal to the gross proceeds of the Offer. The Society will be able to utilise this amount if Stockwood Finance elects to redeem the redeemable preference shares or to advance the funds to the Society by way of loan in the interim.

The Society and the Banks 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, the Joint Bookrunners have severally agreed to use their reasonable endeavours to procure subscribers for the Further CCDS under the Offer and, failing which, the Banks have severally agreed to subscribe for themselves (in agreed proportions) the Further CCDS under the Offer. For the avoidance of doubt, the underwriting obligations of the Banks relate only to the settlement risk that an investor who has been allotted Further CCDS in the Offer fails to make payment for such Further CCDS on or before the Issue Date.

Allocations under the Offer are made in accordance with customary allocation processes and procedures and in accordance with applicable law and regulation. Final allocations under the Offer are determined by the Society having regard to a range of factors, including, *inter alia*, the level and nature of demand for the Further CCDS in the Offer and the objective of continuing an orderly and liquid after-market in the CCDS. In addition, in making any final determination of allocations in respect of the Further CCDS, the Society is entitled (but not obliged) to take into account any current holding of Existing CCDS by investors who express an interest in purchasing Further CCDS pursuant to the Offer. Prospective investors are invited to provide written confirmation of any such holding of Existing CCDS to the Joint Bookrunners promptly in the bookbuilding process, and will be deemed upon provision of such written confirmation to represent and warrant to the Banks and the Society that such written confirmation is true and accurate in all respects. Any holding of Existing CCDS is one of many factors which the Society may elect, in its sole discretion, to take into account in determining final allocations for the Further CCDS. Accordingly, there is no guarantee that the provision of confirmation of Existing CCDS holdings to the Joint Bookrunners by investors will result in an allocation of Further CCDS to those investors, or that any allocation will bear any correlation to the size of any such existing holding. The Society and the Joint Bookrunners shall be entitled, but not required, to enquire further in respect of any written confirmation of holdings provided by investors in the Existing CCDS, and each of them shall be entitled to rely on any such written confirmation without liability to any person.

The Offer is conditional upon admission of the Further 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 Banks to be paid a commission based on the overall proceeds of the Offer. The Society has given the Banks certain customary representations, warranties and undertakings and indemnities. The Further CCDS will upon issue be consolidated and form a single series with the Existing CCDS. Accordingly, if the Society elects to declare an interim Distribution on the CCDS for payment in December 2017, investors in the Further CCDS will (provided they continue to hold their Further CCDS at close of business on the ICSD Business Day immediately prior to the due date for payment) be entitled to receive such Distribution in full. **ICSD Business Day** means a day on which Euroclear and Clearstream, Luxembourg are open for business. The Board is currently targeting an interim Distribution payment in December 2017 of £5.125 per CCDS. However, the Society is under no obligation to declare an interim Distribution. Admission is expected to become effective and dealings in the Further CCDS are expected to commence on the London Stock Exchange, at 8.00 a.m. on or after 14 September 2017 but not later than 21 September 2017.
E.4	Material Interests to the Offer, including Conflicting Interests	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. 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. In addition, in the ordinary course of their business activities, the Banks and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of the Society or its affiliates. Certain of the underwriters or their affiliates that have a lending relationship with the Society routinely hedge their credit exposure to the Society consistent with their customary risk management policies. Typically, such underwriters and their affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in the Society's securities, including potentially the Further CCDS offered pursuant to the Offer. Any such short positions could adversely affect future trading prices of the Further CCDS offered pursuant to the Offer. The Banks and their affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.
E.5	Selling Shareholders and any Lock-up	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 Banks.

	Arrangement	
E.6	Dilution Resulting from the Offer	There are 5,500,000 Existing CCDS in issue at the date of this Prospectus. The Further CCDS will upon issue be consolidated and form a single series with the Existing CCDS. 5,000,000 Further CCDS will be issued pursuant to the Offer, resulting in an aggregate number CCDS outstanding of 10,500,000, with the Further CCDS representing approximately 47.619 per cent. of the aggregate number of CCDS. See also section C.4 of this Summary as regards the indicative impact of the issue of the Further CCDS on the Core Capital Contribution Proportion and the Average Principal Amount.
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 three sections – "Risks related to Nationwide's business", "Regulatory Risks" and "Risks Related to the CCDS".

1. RISKS RELATED TO NATIONWIDE'S BUSINESS

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

Nationwide's business activities are concentrated in the UK and it offers a range of banking and financial products and services to UK retail customers. As a consequence, Nationwide's operating results, financial condition and prospects are significantly affected by the general economic conditions in the UK economy and the economic confidence of consumers and businesses.

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

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

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

Worsening 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. Any weakening in tenant performance and investor appetite could result in increased commercial loan losses which would adversely impact Nationwide's financial and operational performance. Any further loan loss provisions recorded against Nationwide's commercial real estate lending could adversely affect its profitability in the future.

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

Conversely, a strengthened UK economic performance, or a rise in inflation pressures, may increase the possibility of a higher interest rate environment. In such a scenario, other market participants might offer more competitive product pricing resulting in increased customer attrition for Nationwide. Under such conditions, Nationwide may also experience an increase in its cost of funding, as described under "*—Changes to interest rates or monetary policy, whether by the UK, US or other central banking authorities, could affect the financial condition of Nationwide's customers, clients and counterparties, which could in turn adversely affect Nationwide*" below.

Additionally, house price growth has been accelerating faster than earnings, with housing affordability becoming more stretched. There is a risk that house price growth could outstrip earnings and reduce demand for new mortgages in the future. In addition, any increase in interest rates will increase mortgage payments, which could lead to higher retail loan losses. See further, "*—Nationwide is exposed to future changes in UK house prices*" below.

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

Nationwide is directly and indirectly subject to inherent risks arising from general economic conditions in the UK and other economies, particularly the Eurozone. The dislocations in financial markets that have occurred since the global financial crisis of 2007-2008 were accompanied by recessionary conditions and trends in the UK and a period of significant turbulence and uncertainty for many financial institutions in the UK and around the world, including Nationwide and many of its counterparties. Any future disruptions could again pose systemic risks that negatively affect, among other things:

- consumer confidence;
- levels of unemployment;

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

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

In the Eurozone, weak growth and deflationary pressures, together with high levels of private and public debt, outstanding weaknesses in the financial sector and reform fatigue, are a concern. The possibility of prolonged low growth in the Eurozone could inhibit the UK's own economic recovery, given the extensive economic and financial linkages between the UK and the Eurozone. The UK's trade and current account balances with the Eurozone would be likely to deteriorate further, negatively affecting UK growth. The possibility of a sovereign default and the managed or unanticipated exit of one or more member states from the European Monetary Union could also pose a threat to the stability of financial markets and could cause other risks. For further information, see "*—In connection with the withdrawal of the United Kingdom from the European Union, Nationwide faces risks to its business and legal uncertainties*" below and "*—If Greece or another member state were to leave the Eurozone, or if the financial system in any member state were to suffer significant failures or stress, economic or financial instability or contagion could develop, which could adversely affect Nationwide" below.*

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

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

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 (calculated in accordance with the Act) 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. Nationwide's retail deposits classified as shares totalled £145 billion as at 4 April 2017, £139 billion as at 4 April 2016 and £132 billion as at 4 April 2015, equal to 71.7 per cent., 73.3 per cent. and 78.9 per cent., respectively, of its total shares and borrowings (as defined in the Act) 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 impact of technology and ‘Open Banking’ as further discussed in “*—Competition in the UK personal financial services markets may adversely affect Nationwide’s operations*” below
- the financial services industry specifically; and
- the availability and extent of deposit guarantees, such as under the Financial Services Compensation Scheme (the **FSCS**).

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

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

Like all major financial institutions, Nationwide is also dependent on the short- and long-term wholesale funding markets for liquidity. Though its dependence on wholesale funding is less than other financial institutions, due to the requirements of current building society legislation, Nationwide’s business is subject to risks concerning liquidity, which are inherent in financial institutions’ operations. If access to liquidity is constrained for a prolonged period of time, this could affect Nationwide’s profitability.

Under exceptional circumstances, Nationwide’s ability to fund its financial obligations could be negatively impacted if it is unable to access funding on commercially practicable terms, or at all. While Nationwide expects to have sufficient liquidity to meet its funding requirements, even in a market-wide stress scenario, under extreme and unforeseen circumstances a prolonged and severe restriction on Nationwide’s access to liquidity (including as a result of the withdrawal of government and central bank funding and liquidity support, or a change in the structure, term, cost, availability or accessibility of any such funding or liquidity support) could increase Nationwide’s cost of funding, resulting in a material adverse effect on its profitability or results of operations, and/or could affect its ability to:

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

In such extreme circumstances Nationwide may not be in a position to continue to operate without additional funding support. Inability to access such support could have a material impact on Nationwide’s solvency. These risks can be exacerbated by many enterprise-specific factors, including an over-reliance on a particular source of funding, changes in credit ratings, or market-wide phenomena such as market dislocation and major disasters. There is also a risk that the funding structure employed by 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 outside its control, such as liquidity constraints, general market conditions, regulatory requirements and loss of confidence in the UK banking system.

The UK government (the **Government**) continues to provide significant support to UK financial institutions, including the BoE’s Funding for Lending Scheme (**FLS**), which closed to mortgage lending on 31 January 2014 and Term Funding Scheme (**TFS**) which opened on 19 September 2016 and is expected to close on 28 February 2018. For so long as TFS remains available, Nationwide expects that it will be less active in the wholesale funding markets and this may have an adverse impact on its ability to obtain, or the cost to it of, wholesale funding once TFS ceases to be available. Conversely, if the TFS were to be continued, or replaced with other Government schemes designed to support lending, this may increase or perpetuate competition in the retail lending market, resulting in sustained or intensifying downward pricing pressures and consequent reductions in net interest margins.

Nationwide expects to face continuing significant competition (including from National Savings and Investments, the Government-owned funding agency) for funding, particularly retail funding on which it is reliant, in the future. This competition could further increase, impacting Nationwide's funding costs and so adversely impact its results of operations and financial position.

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

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

Stimulus measures in the UK and elsewhere have been highly accommodative in recent years, including FLS, TFS and the Help to Buy scheme (**Help to Buy**), a Government scheme introduced in 2013 designed to enable buyers to put down a 5 per cent. deposit on a home with the Government guaranteeing up to 20 per cent. of the mortgage (40 per cent. in London) funded by a commercial lender. Such measures have helped to support demand at a time of fiscal tightening and balance sheet repair. The relatively long period of stimulus in the UK and elsewhere has increased uncertainty over the impact of its reduction, which could lead to generally weaker than expected growth, or even contracting GDP, reduced business confidence, higher levels of unemployment or underemployment, adverse changes to levels of inflation, potentially higher interest rates and falling property prices in the markets in which Nationwide operates, and consequently to an increase in delinquency rates and default rates among Nationwide's customers. Moreover, higher prevailing interest rates would affect Nationwide's cost of funding with depositors and creditors, which could adversely affect its profitability, to the extent its margins decline.

The personal sector in the UK remains heavily indebted and vulnerable to increases in unemployment, rising interest rates and/or falling house prices. As a result of, among other factors, increases and decreases in the BoE base rate, interest rates payable on a significant portion of Nationwide's outstanding mortgage loan products fluctuate over time. Rising interest rates would put pressure on borrowers whose loans are linked to the BoE base rate because such borrowers may experience financial stress in repaying at increased rates in the future. A significant portion of Nationwide's outstanding mortgage loan products are potentially subject to changes in interest rates, resulting in borrowers with a mortgage loan subject to a variable rate of interest or with a mortgage loan for which the related interest rate adjusts following an initial fixed rate or low introductory rate, as applicable, being exposed to increased monthly payments as and when the related mortgage interest rate adjusts upward (or, in the case of a mortgage loan with an initial fixed rate or low introductory rate, at the end of the relevant fixed or introductory period). Since 2009, both variable and fixed interest rates have been at relatively low levels, which has benefited borrowers taking out new loans and those repaying existing variable rate loans, regardless of special or introductory rates, and these rates are expected to increase as and when general interest rates return to historically more normal levels. Future increases in borrowers' required monthly payments, which (in the case of a mortgage loan with an initial fixed rate or low introductory rate) may be compounded by any further increase in the related mortgage interest rate during the relevant fixed or introductory period, ultimately may result in higher delinquency rates and losses in the future.

In an increasing interest rate environment, borrowers seeking to avoid these increased monthly payments by refinancing their mortgage loans may no longer be able to find available replacement loans at comparably low interest rates. Increased unemployment could lead to borrowers who are made redundant being unable to service the loan payments in a timely fashion which would result in higher levels of arrears, both in Nationwide's secured residential mortgage loan and unsecured consumer loan portfolios which, in turn, would lead to an increase in its impairment charges in respect of these portfolios. Declines in housing prices may also leave borrowers with insufficient equity in their homes to permit them to refinance. These events, alone or in combination, may contribute to higher delinquency rates and losses. For further discussion, see "*Impairment losses on loans and advances to customers*" in paragraph 7.2 of "*Part XV: Operating and Financial Review*".

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

Nationwide is exposed to future changes in UK house prices

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

In addition, Nationwide also has a significant portfolio of specialist mortgages, which amounted to £33 billion, or 17.7 per cent., of Nationwide's loans and advances to customers as at 4 April 2017. The buy to let market in the UK is predominantly dependent upon yields from rental income to support mortgage interest payments and capital gains from capital appreciation. Falling or flat rental rates and decreasing capital values, whether coupled with higher mortgage interest rates or not, could reduce the potential returns from buy to let properties. In addition, the Government has proposed legislation restricting the amount of income tax relief that individual landlords can claim for residential property finance costs (such as mortgage interest) to the basic rate of tax, which may result in lower yields on buy to let property investments. This restriction is being introduced gradually with the first stage of changes applying from 6 April 2017. The BoE has also stated that it is considering increasing the regulatory capital requirements of banks holding buy to let mortgages on their balance sheets, although no specific proposals have been made. From 1 April 2016, a higher rate of stamp duty land tax (**SDLT**) applied to the purchase of additional properties (such as buy to let properties). The current additional rate is 3 per cent. above the current SDLT rates. These factors could make the purchase of buy to let properties and/or second homes a less viable investment proposition and reduce the demand for related mortgages, which may also affect the resale value of relevant or similar properties.

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

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

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

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

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

On 29 March 2017 and following an earlier referendum in the UK, the Government invoked Article 50 of the Lisbon Treaty to initiate its withdrawal from the European Union. As a result, the Treaty on the European Union and the Treaty on the Functioning of the European Union will cease to apply in the UK from the date of entry into force of a withdrawal agreement or, failing that, 29 March 2019, although this period may be extended in certain circumstances.

There are a number of uncertainties in connection with the future of the UK and its relationship with the European Union. The negotiation of the UK's exit terms is likely to take a number of years. Until the terms and timing of the UK's exit from the European Union are clearer, it is not possible to determine the impact that the referendum, the UK's departure from the European Union and/or any related matters may have on Nationwide's business.

Among other consequences, the UK's withdrawal from the European Union could materially change the legal framework applicable to Nationwide's operations, including in relation to its regulatory capital requirements and could result in restrictions on the movement of capital and the mobility of personnel. Any of these factors could result in higher operating costs and no assurance can be given that the UK's withdrawal from the European Union will not adversely affect Nationwide's business, financial condition and results of operations and/or the market value and/or the liquidity of the CCDS in the secondary market.

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

The past negotiations between Greece (on the one hand) and the International Monetary Fund, the European Central Bank and the European Commission (on the other hand) and the potential for continued difficulties that Greece faces in remaining in the Eurozone could give rise to risks of renewed market turmoil and the future potential of Greece's exit from the Eurozone. Any default on the sovereign debt of Greece or another distressed Eurozone country could have a negative impact on other Eurozone countries and the UK, and could have a material adverse effect on Nationwide's business.

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

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

Increased volatility in the financial markets since the global financial crisis has resulted in Nationwide recording impairment charges and/or negative fair value adjustments in its results over each of the last three financial years with respect to securities and other investments held. For example, in the financial years ended 4 April 2017 and 4 April 2015, Nationwide recorded impairment losses in its income statement of £9 million and £18 million, respectively, in respect of its investment securities. In addition, in the financial year ended 4 April 2016, Nationwide recorded a negative available for sale reserve movement of £34 million in its statement of comprehensive income.

Asset valuations in future periods, reflecting prevailing market conditions, may result in further negative changes in the fair values of Nationwide's investment assets and these may also translate into increased impairments, particularly with respect to Nationwide's exposure to residential mortgage backed securities (**RMBS**) and covered bonds collateralised on assets originated in weaker European countries. In addition, the value that Nationwide ultimately realises for its securities and other investments may be lower than the current fair value. Any of these factors could require Nationwide to record further impairment charges and negative fair value adjustments, which may have a material adverse effect on Nationwide's operating results, financial condition or prospects.

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

If sentiment towards banks, building societies and/or other financial institutions operating in the United Kingdom, including Nationwide, were to deteriorate, or if Nationwide's ratings and/or the ratings of the sector were to be adversely affected, this may have a materially adverse impact on Nationwide. In addition, any such change in sentiment or 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.

Nationwide's long-term ratings are currently "A (negative)" from S&P, "Aa3 (stable)" from Moody's and "A+ (stable)" from Fitch (November 2013: "A (negative)", "A2 (negative)" and "A (stable)", respectively) and its short-term ratings are currently "A-1" from S&P, "P-1" from Moody's and "F1" from Fitch (November 2013: "A-1", "P-1" and "F1", respectively).

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

- *S&P (August 2017)*: affirmed the "A"/"A-1" long- and short-term ratings, with a negative outlook reflecting its view on a negative trend for economic risk in the UK.

- *Moody's (August 2017)*: changed the outlook on deposits and senior unsecured debt at "Aa3"/"P-1" to stable from negative, reflecting its expectation of a moderate deterioration in the operating environment in the UK, to which Nationwide is now more resilient.

- *Fitch (February 2017)*: upgraded Long-Term Issuer Default Rating to "A+" from "A", reflecting its view that Nationwide's junior debt buffers are sufficiently large to provide protection for senior unsecured creditors.

Any declines in those aspects of Nationwide's business identified by the rating agencies as significant could adversely affect the rating agencies' perception of Nationwide's credit and cause them to take 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;
- undermine confidence in its business;
- increase its borrowing costs;
- limit its access to the capital markets; or
- limit the range of counterparties willing to enter into transactions with Nationwide.

Nationwide has experienced all of these effects when downgraded in the past, although the precise effects experienced on each downgrade have varied based on the reasons for the particular downgrade and the extent to which the downgrade had been anticipated by the market. Nationwide's credit ratings are subject to change and could be downgraded as a result of many factors, including the failure to successfully implement its strategies. A downgrade could also lead to a loss of customers and counterparties which could have a material adverse effect on Nationwide's business, results of operations and financial condition.

If the ratings analysis of any agency that rates Nationwide's credit is updated to reflect lower forward-looking assumptions of systemic support in the current environment or higher assumptions of the risks in the financial sector, it could result in a downgrade to the outlook or to the credit ratings of UK financial institutions, including Nationwide, which could have a material adverse effect on the borrowing costs, liquidity and funding of all UK financial services institutions, including Nationwide. Any downgrade in its ratings could also create new obligations or requirements for Nationwide under existing contracts with its counterparties that may have a material adverse effect on Nationwide's business, financial condition, liquidity or results of operations. For example, as at 4 April 2017, Nationwide would have needed to provide additional collateral amounting to £3.3 billion in the event of a one notch downgrade by external credit rating agencies.

The UK's long-term ratings are currently "AA" from S&P, "Aa1" from Moody's and "AA" from Fitch. Any downgrade of the UK sovereign credit rating or the perception that such a downgrade may occur could destabilise the markets, impact Nationwide's rating, borrowing costs and ability to fund itself and have a material adverse effect on Nationwide's operating results and financial condition. In addition, a UK sovereign downgrade or the perception that such a downgrade may occur would be likely to depress consumer confidence, restrict the availability, and increase the cost, of funding for individuals and companies, depress economic activity, increase unemployment and/or reduce asset prices. These risks are exacerbated by concerns over the levels of the public debt of, the risk of further sovereign downgrades of, and the weakness of the economies in, certain weaker Eurozone countries. Further instability within these countries or others within the Eurozone might lead to instability in the UK and in the global financial markets.

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

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

Nationwide is currently the third largest household savings provider and the second largest provider of residential mortgages in the United Kingdom, with estimated market shares of approximately 10.1 per cent. (as calculated by Nationwide based on BoE data) and 12.9 per cent. (according to BoE data), respectively, as at 4 April 2017.

Nationwide operates in an increasingly competitive UK personal financial services market. It competes mainly with other providers of personal finance services, including banks, building societies and insurance companies. In addition, recent technological advances have allowed new competitors to emerge both from within the traditional financial services arena and from outside it, and continued advances in technology may lead to further new entrants. Each of the main personal financial services markets in which Nationwide operates is mature and relatively slow growing, which intensifies pressure for firms to take market share from their competitors if they are to expand. This places elevated focus on price and service as the key differentiators, each of which carries a cost to the provider. As a member-owned business, Nationwide is able to provide benefit to its members through the offer of competitive savings and mortgage products. Nationwide's financial member benefit is delivered in the form of differentiated pricing and incentives, which it quantifies as the sum of its interest rate differential, member reduced fees and incentives. In the financial years ended 4 April 2017 and 4 April 2016, Nationwide estimated that benefit at £505 million and £397 million, respectively. If Nationwide is unable to match the efficiency of its competitors in relation to both price and service, it risks losing competitive advantages and being unable to attain its strategic growth aspirations.

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

Competition for deposits has intensified and this trend could continue when interest rates rise or if competitors, including the Government-owned funding agency, National Savings and Investments, increases market share. The personal current account market is currently the focus of intense competition. A range of institutions see the personal current account as the key to broader customer relationships and are seeking to make inroads into the large established market share of the major banking groups.

Competition may also intensify in response to consumer demand, technological changes, the impact of consolidation by Nationwide's competitors, regulatory actions and other factors. Nationwide also faces potential competition from new banks in the UK, such as TSB, from banking businesses developed by large non-financial companies, such as Tesco and Virgin Money, from "challenger bank" entrants, such as Metro Bank and Aldermore, and from fundamentally new entrants into the UK banking sector, such as peer-to-peer lending platforms. If increased competition occurs as a result of these or other factors, Nationwide's business, financial condition and results of operations could be materially adversely affected. For example, the Competition and Markets Authority (the **CMA**) undertook a market investigation into competition in the personal current accounts and the small and medium-sized enterprises retail banking markets. The CMA published its final report on 9 August 2016 which identified features of the markets for the supply of personal current accounts, business current accounts and SME lending that are having an adverse effect on competition. The CMA decided on a comprehensive package of remedial measures which included, among other things, the introduction of requirements to prompt customers to review the services that they receive from their bank at certain trigger points and to promote public awareness of account switching. The remedial measures were to be implemented by orders, undertakings to be given by banks and further work by the FCA and HM Treasury, including further work on overdraft charges by the FCA, which remains under political scrutiny. On 2 February 2017, the CMA made the Retail Banking Market Investigation Order 2017 to implement the remedial measures. There can be no assurance that Nationwide's customer base, levels of deposits or market share will not be adversely affected by the remedial measures and other regulatory actions arising out of the investigation.

The remedies provided by the CMA, together with changes to the payment services directive (**PSD2**) which must be transposed into UK law by 13 January 2018, are commonly referred to as **Open Banking**. The aim of Open Banking is to create more transparency and fairness in the UK banking and financial services market through greater competition and innovation. It has the potential to significantly disrupt traditional personal financial services models and to radically reshape the banking landscape in the UK. Open Banking will require financial institutions such as Nationwide to provide registered third party organisations with transactional information where the consent of the customer or member is provided, and also to make public and openly share their product information, as well as customer satisfaction scores and other service level indicators. This will make it possible for consumers to share their financial transactional data more easily with third parties online, allow third parties to initiate payments directly from a person's account as a bank transfer as an alternative to credit or debit card payments, and enable customers or such third party providers to more easily compare products offered by different institutions. This offers the prospect of an enhanced banking experience for the customer – for example, providers could offer comparison and switching services to help customers identify the best financial products for them and, over time, potentially enable customers to automate management of their finances to some degree, such as authorising service providers to transfer their finances to more competitive products on a regular and ongoing basis.

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

Further, the sharing of customer data, and the enabling of direct payments by third party providers from a customer's account, may give rise to significant risks associated with cyber security, fraud, IT resilience and data protection, as well as increased compliance costs and risks associated with Nationwide becoming liable for, or otherwise being required to protect customers against, the costs and/or liabilities of other third party providers and/or losses caused by the actions of such other third party providers. Any loss in the integrity and resilience of key systems and processes, data thefts, cyber-attacks, denial of service attacks or breaches of data protection requirements could significantly disrupt Nationwide's operations and cause significant financial loss and reputational damage to Nationwide. This could in turn result in a loss of confidence in Nationwide, potentially resulting in existing customers withdrawing deposits and/or deterring prospective new customers.

Additionally, the implementation of the Independent Commission on Banking's (the **ICB**) recommendation to separate retail banking activities from wholesale and investment banking activities to be carried out by large banking groups operating in the UK by no later than 2019 could reduce the distinctiveness of the building society model, which Nationwide considers to be a competitive advantage. This may, in time, alter the business models of ring-fenced banks and may therefore alter adversely the competitive position of Nationwide and other mutual institutions.

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

In addition, if Nationwide's customer service levels are perceived by the market to be 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.

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 and operational risks requires, among other things, robust guidelines and policies for the accurate identification and control of a large number of transactions and events. Such guidelines and policies may not always prove to be adequate in practice. Nationwide faces a wide range of risks in its business activities, including, in particular:

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

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

- market risks, in particular interest rate risk as well as foreign exchange and bond and equity price risks. Changes in interest rate levels, yield curves and spreads may affect 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, "—*Changes to interest rates or monetary policy, whether by the UK, US or other central banking authorities, could affect the financial condition of Nationwide's customers, clients and counterparties, which could in turn adversely affect Nationwide*" above and "—*Market risks may adversely impact Nationwide's business*" below; and

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

Nationwide has a range of tools designed to measure and manage the various risks which it faces, see "*Part XVIII: 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.

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

Nationwide's success as a financial institution depends on its ability to process a very large number of transactions efficiently and accurately. Operational risk and losses can result from a range of internal and external factors. Internal factors include fraud, errors by employees, failure to document transactions properly or to obtain proper internal authorisation, failure to comply with regulatory requirements and conduct of business rules and equipment failures, particularly in relation to electronic banking applications. External factors include natural disasters, war, terrorist action or the failure of external systems, for example, those of Nationwide's suppliers or counterparties. These could, for example, prevent Nationwide's customers from withdrawing cash from Nationwide's automatic telling machines (**ATMs**) 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.

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

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

Although Nationwide has implemented risk controls and loss mitigation actions, and substantial resources are devoted to developing efficient procedures and to staff training, it is not possible to implement procedures which are fully effective in controlling each of the operational risks noted above.

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

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

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

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

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

Market risks may adversely impact Nationwide's business

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

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

Concentration risks may adversely impact Nationwide's business

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

Reputational risk could cause harm to 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 service and accounts or the failure of intermediaries or third parties on whom Nationwide relies;

- failing to properly identify legal, reputational, credit, liquidity and market risks inherent in products offered; and

- generally poor company performance.

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

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

- certain aspects of Nationwide's business may be determined by the BoE, the Prudential Regulation Authority (the **PRA**), the Financial Conduct Authority (the **FCA**), HM Treasury, the CMA, the Financial Ombudsman Service (the **FOS**) or the courts as not being conducted in accordance with applicable laws or regulations, or, in the case of the FOS, with what is fair and reasonable in the Ombudsman's opinion;

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

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

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

In November 2014, the UK Supreme Court ruled in *Plevin v. Paragon Personal Finance Ltd* (**Plevin**) that a failure to disclose to a client a large commission payment on a single premium PPI policy made the relationship between a lender and the borrower unfair under section 140A of the Consumer Credit Act 1974 (the **CCA**). As a result and following an industry consultation, in March 2017 the FCA published final rules and guidance which may result in an increase in the volume of 'Plevin-based' unfair relationship claims brought against the lenders who failed to disclose significant PPI commissions when entering into credit agreements. A key aspect of the FCA's final rules is a PPI complaints deadline of 29 August 2019 for remaining PPI complaints to financial services firms or the FOS. There can be no assurance that the final rules and guidance will not result in further costs or requirements in relation to customer redress by institutions which have historically sold PPI.

Ongoing reviews and analysis of Nationwide's own documentation and processes relating to consumer protection and sales practices are constantly being undertaken. As a result, a number of other areas have been identified which require remediation, which also contributed to the £136 million charge in the year ended 4 April 2017. No assurance can be given that Nationwide will not incur liability in connection with any past, current or future non-compliance with legislation or regulation, and any such non-compliance could be significant and materially adversely affect Nationwide's results of operations and financial position and its reputation.

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.

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 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: "*Financial Instruments: Recognition and Measurement*". It will change the classification and measurement of some financial assets, the recognition and the financial impact of impairment and hedge accounting. IFRS 9 is required to be implemented in Nationwide's financial statements for the financial year ending 4 April 2019.

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

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

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

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

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

The IASB may make other changes to financial accounting and reporting standards that govern the preparation of 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 2017 Financial Statements incorporated by reference in this Prospectus 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 provisions on customer loans and advances (see note 10 to the 2017 Financial Statements), the estimates underlying its determination of provisions for customer redress (see note 30 to the 2017 Financial Statements) and the assumptions underlying its calculations of retirement benefit obligations (see note 33 to the 2017 Financial Statements).

A variety of factors could affect the ultimate value that is obtained either when earning income, recognising an expense, recovering an asset or reducing a liability. 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. Any deficit in Nationwide's defined benefit scheme is deducted from is CET1 capital

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 2017, the financial year ended 4 April 2016 and the financial year ended 4 April 2015, Nationwide made additional employer deficit contributions of £149 million, £49 million and £91 million, respectively, to its pension schemes. As at 30 June 2017, Nationwide had a deficit of £409 million (£423 million as at 4 April 2017) in 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.

In addition, any deficit in Nationwide's defined benefit scheme is deducted from its CET1 capital. Accordingly, any increase in the deficit will result in a reduction in Nationwide's capital ratios.

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.

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

The Senior Managers and Certification Regime (the **SM&CR**) came into force on 7 March 2016 and is intended to govern the conduct of senior persons within UK banks, building societies, credit unions, PRA designated investment firms and branches of foreign banks operating in the UK. The FCA and the PRA have now published the majority of their rules and guidance on the SM&CR. Among other things, the SM&CR introduced: (i) a new senior persons regime governing the conduct of bank staff; (ii) the introduction of a criminal offence for reckless misconduct by senior bank staff; and (iii) steps to improve competition in the banking sector. From 7 March 2017, the conduct rules previously only applicable to Senior Managers and staff within the SM&CR have applied to all staff other than those undertaking purely ancillary functions. Rules regarding regulatory references for Senior Managers and staff within the SM&CR also came into force from 7 March 2017. The PRA and FCA continue to publish guidance on the SM&CR, most recently the Policy Statement PS12/17 on strengthening individual accountability in banking and insurance: amendments and optimisations. The SM&CR will have a substantial impact on banks and building societies in the UK generally, including Nationwide.

2. REGULATORY RISKS

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

Nationwide conducts its business subject to ongoing regulation by the PRA and the FCA, which oversee its prudential arrangements and the sale of its products, including, for example, residential mortgages, commercial lending, savings, investment, consumer credit and general insurance. The regulatory regime requires Nationwide to be in compliance across many aspects of activity, including the training, authorisation and supervision of personnel, systems, processes and documentation. The financial sector has seen an unprecedented volume and pace of regulatory change in the years following the global financial crisis, and significant resource has been required to assess and implement necessary changes. If 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 continues to witness significant levels of Government intervention in the banking, personal finance and real estate sectors. Future changes in regulation, fiscal or other policies are unpredictable and beyond Nationwide's control and could materially adversely affect its business or operations.

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

- Changes to the Markets in Financial Instruments Directive (**MiFID**) and its various implementing measures, which together regulate the provision of investment services and activities in relation to a range of customer-related areas, including customer classification, conflicts of interest, client order handling, investment research and financial analysis, suitability and appropriateness, transparency obligations and transaction reporting. MiFID is in the process of being replaced by a revised directive (**MiFID II**) and a new regulation (Markets in Financial Instruments Regulation or **MiFIR**), which entered into force on 2 July 2014. The changes to MiFID include expanded supervisory powers that include the ability to ban specific products, services or practices. The majority of the provisions of MiFID II and MiFIR and the implementing laws and regulations are currently scheduled to apply from 3 January 2018.

- At an EU level, structural reform measures that are similar to some of those contained in the Banking Reform Act 2013 (concerning the ring-fencing of retail banking services in the UK) are also under consideration, following the report of the European Commission's high level expert group on reforming the structure of the EU Banking Sector (the **Liikanen Group**). This report's proposals were heavily influenced by the UK experience. Nationwide does not currently anticipate that the report's proposals will have any impact on the UK building societies due to the Banking Reform Act and existing restrictions, provided the UK obtains a derogation under the EU proposals, but there can be no assurance that the proposals will not have an adverse effect on its operations, business, results, financial condition or prospects.

- Revisions to the Payment Services Regulations 2009 (the **PSRs**) will need to take place in the future to reflect the revised directive on payment services (**PSD2**). PSD2 came into force on 12 January 2016 and member states, including the UK, are required to transpose it into national law by 13 January 2018. HM Treasury is currently consulting on the implementation and has published draft Payment Services Regulations 2017. Key changes include the requirement for account information services (**AIS**) and payment initiation services (**PIS**) to now be regulated, new security requirements and increased focus on consumer protection. There are also changes to the scope of the conduct of business rules and the list of exemptions.

- The General Data Protection Regulation (**GDPR**) comes into force in May 2018 and applies to personal data. Its definition is more detailed than the Data Protection Act (**DPA**) and makes it clear that information such as an online identifier (for example, an IP address, can be personal data. It applies to both automated personal data and to manual filing systems where personal data is accessible according to specific criteria. This is wider than the DPA's definition and could include chronologically ordered sets of manual records containing personal data. A significant programme of work is in place to make the changes necessary to meet the requirements. In addition, Nationwide has a deadline of 31 December 2018 to comply with the Basel Committee on Banking Supervision's regulation number 239 entitled "*Principles for effective risk data aggregation and risk reporting*" (**BCBS239**), which aims to strengthen risk data aggregation capabilities and internal risk reporting practices.

At this point it is difficult to predict the effect that any of these changes will have on Nationwide's operations, business and prospects or how any of the proposals discussed above will be implemented in light of the fundamental changes to the regulatory environment proposed by the Government and/or the European Commission. Depending on the specific nature of the requirements and how they are enforced, the 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 will not have a material adverse effect on its operations, business, results, financial condition or prospects.

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

Nationwide is also subject to a number of EU and UK proposals and measures targeted at preventing financial crime (including anti-money laundering and terrorist financing). This includes the EU's Fourth Anti-Money Laundering Directive, which came into force in June 2017 and aims to enhance processes to counter money laundering and terrorist financing. Nationwide is committed to operating a business that prevents, deters and detects money laundering and terrorist financing, and will introduce any changes required in line with the new directive and industry guidance. However, if there are breaches of these measures or existing law and regulation relating to financial crime, Nationwide could face significant administrative, regulatory and criminal sanctions as well as reputational damage which may have a material adverse effect on Nationwide's operations, financial condition and prospects.

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

Nationwide is subject to wide-ranging regulatory action in the event that its failure is considered likely and to pose a threat to the public interest

In Europe, Directive 2014/59/EU (the **Bank Recovery and Resolution Directive** or the **BRRD**) provides for a package of minimum early intervention and resolution-related tools and powers for relevant authorities and provides for special rules for cross-border groups. The UK implemented the majority of the measures under the BRRD into English law, by way of amendment to the Banking Act 2009 (the **Banking Act**) on 1 January 2015.

Under the Banking Act substantial powers have been granted to HM Treasury, the BoE (including the PRA) and the FCA (the **Authorities**) as part of a special resolution regime (the **SRR**). These powers enable the Authorities, among other things, to resolve a bank or building society in circumstances in which the Authorities consider its failure has become highly likely and a threat is posed to the public interest. In respect of UK building societies, the relevant tools (together, the **Stabilisation Options**) include:

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

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

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

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

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

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

In addition, the Banking Act contains a separate power, often referred to as the "capital write-down tool", enabling the Authorities to write down (including to nil) an institution's Additional Tier 1 and Tier 2 capital instruments, or to convert them into CET1 instruments, if the Authorities consider that the institution or the group is at the "point of non-viability" and certain other conditions are met. The capital write-down tool may be used separately from the resolution tools, and may be used whether or not the institution subsequently enters into resolution.

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

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

(ii) following consultation with the other Authorities, the relevant Authority determines that it is not reasonably likely that (ignoring the Stabilisation Options) action will be taken that will enable the relevant entity to satisfy those conditions;

(iii) the Authorities consider the exercise of the Stabilisation Options to be necessary, having regard to certain public interest considerations (such as the stability of the UK financial system, public confidence in the UK banking system and the protection of depositors); and

(iv) the relevant Authority considers that the specific resolution objectives would not be met to the same extent by the winding up of the relevant entity.

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

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

Although the Banking Act provides for conditions to the exercise of any resolution powers and the EBA guidelines set out the objective elements for determining whether an institution is failing or likely to fail, it is uncertain how the Authorities would assess such conditions in any particular situation. The relevant Authorities are also not required to provide any advance notice of their decision to exercise any resolution power. Therefore, holders of CCDS may not be able to anticipate a potential exercise of any such powers nor the potential effect of any exercise of such powers on Nationwide or the CCDS.

The CCDS are deeply subordinated instruments. The CCDS qualify as CET1 capital of the Society. The use of the powers afforded to the authorities under the SRR, and the further powers under the BRRD, could in each case result in the CCDS holders losing their entire investment in the CCDS, including potentially through:

- the cancellation of CCDS in conjunction with the capital write-down tool or the bail-in tool;
- 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;
- transfers of the business or assets of the Society resulting in the CCDS holders holding investments in an entity with reduced or no assets; or
- the demutualisation of the Society resulting in the CCDS holders holding investments in shares in the demutualised entity or another entity within the same group as the demutualised entity, in each case 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 a relevant bail-in tool or capital write-down tool, are converted into additional CCDS (or are written down in circumstances where the holders thereof are compensated by the delivery of additional CCDS). In addition to dilution as a result of the use of the capital write-down tool or the bail-in tool, the Society's £1,000,000,000 Reset Perpetual Contingent Convertible Additional Tier 1 Capital Securities (ISIN: XS1043181269) (the **AT1 Securities**) will automatically convert to CCDS if the Society's CET1 ratio falls below 7 per cent. Any 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.

Accordingly, in any resolution or recovery scenario, the investors may lose all or substantially all of their investment in CCDS.

If at any time Nationwide becomes (or is perceived to be likely to become) subject to the SRR or the BRRD, 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 aim of the SRR is to ensure that, when a firm fails, the costs of the firm's failure are met by the capital providers (such as investors in the CCDS) and unsecured creditors and that public funds are not put at risk. However, the BRRD permits precautionary recapitalisation, which allows the use of public funding subject to strict conditions, to ensure that the aid is indeed provided on a precautionary basis, and conditional on final approval under state aid rules. State aid in this context can only be granted as a precaution (to prepare for possible capital needs of a financial institution that would materialise if economic conditions were to worsen significantly) and is therefore reserved for financial institutions that are solvent and not failing or likely to fail. In particular, the state aid crisis rules on banking (2013 Banking Communication) require that, *inter alia*, the use of taxpayer money is limited through appropriate burden-sharing measures (shareholders and subordinated debt holders contribute). Depositors and senior creditors are not required to contribute under state aid rules.

Nationwide is subject to regulatory capital and liquidity requirements which may change

Nationwide is subject to regulatory capital and liquidity requirements that could have an impact on its operations (see "*Part XVI – Capital Adequacy*" for further information). Changes to the regulatory capital and liquidity requirements under which Nationwide operates could hinder growth by prescribing more stringent requirements than those with which it currently complies. UK regulators and international policymakers are reviewing a number of areas of the regulatory capital framework, with a view to making changes as appropriate. These areas include a Minimum Requirement for Own Funds and Eligible Liabilities (**MREL**), capital requirements for residential mortgages and review of the IRB model framework, use of the standardised approach for credit risk and use of the revised standardised approach for operational risk.

Since the global financial crisis, there has been a significant overhaul of the regulatory capital and liquidity regimes with which Nationwide must remain compliant, and there continues to be significant developments (see "*Part XVI – Capital Adequacy*" for further information). These changes have resulted, amongst other things, in significant increases in the amount and quality of capital which financial institutions such as Nationwide are required to maintain. Further substantial changes to the regime, including (without limitation) the phasing in of MREL requirements, the proposed introduction of capital floors for institutions which calculate risk exposures using Internal Ratings Based (**IRB**) approaches, revisions to IRB models to reduce 'point in time' volatility and PRA requirements to align firms' IRB modelling approaches for residential mortgage risk weighted assets could result in further increases in the level of capital which Nationwide is required to hold and could cause Nationwide to incur additional costs in order to ensure implementation of, and continued compliance with, the evolving prudential regime. This could have a material adverse effect on its profitability or results of operations and could hinder growth.

There remains significant uncertainty with respect to the implementation of the proposed Basel capital floor and the impact of the PRA's policy on residential mortgage risk-weights. It is possible that these changes might result in a significant increase in the Society's RWAs and, therefore, reduce its CET1 ratio. Given the nature of Nationwide's balance sheet, which is underpinned by residential mortgage assets with a low risk profile (as demonstrated by a low level of arrears compared to the industry average), the Society's current binding capital constraint is based on leverage (rather than risk-based) capital requirements. Based on Nationwide's current understanding of the proposed changes to risk-weights, and subject to final implementation, the Society currently expects that the leverage ratio will continue to be its binding capital constraint in the near-term. However, it is possible that these changes will, over time, result in risk-weighted capital requirements becoming the binding constraint on the Society.

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

If Nationwide fails, or is perceived to be likely to fail, to meet its minimum regulatory capital, liquidity or MREL requirements, this may result in administrative actions or regulatory sanctions. Furthermore, any actual or perceived weakness relative to Nationwide's competitors could result in a loss of confidence in Nationwide, which could result in high levels of withdrawals from Nationwide's retail deposit base, upon which it relies for lending and which could have a material adverse effect on Nationwide's business, financial position and results of operations. Further, if it is determined that Nationwide is at the point of non-viability or the conversion trigger contained in any regulatory capital securities (including the AT1 Securities) is breached, the conversion of other obligations of the Society into CCDS, as described in "*—Nationwide is subject to wide-ranging regulatory action in the event that its failure is considered likely and to pose a threat to the public interest*" above, may cause the market price or value of the CCDS to be severely adversely affected and the CCDS holders may lose all or substantially all of their investment in CCDS.

In addition, since 2014, the BoE has conducted concurrent stress tests of the UK banking system on an annual basis. The annual cyclical scenario includes all major UK banks and building societies with total retail deposits equal to, or greater than, £50 billion on an individual or consolidated basis, at a firm's financial year-end date. At present, this group also comprises Nationwide. There is a risk that Nationwide may fail its annual stress test (which would have the effect of damaging its reputation and other associated adverse consequences) and be subject to future regulatory developments to the BoE's stress testing framework which could lead to, amongst others, a requirement to raise further capital. In addition, the EBA has conducted its own stress tests for certain European financial institutions. Although the Society has not to date been involved in the EBA's stress tests, if it were to be included in the future, as with the BoE's stress tests there is a risk that it would be subject to any future regulatory developments affecting the evolution of the EBA's stress testing framework.

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

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

The FSMA established the FSCS, which pays compensation to eligible customers of authorised financial services firms which are unable, or are likely to be unable, to pay claims against them. For further information, see "*Financial Services Compensation Scheme*" in "*Part XI: Description of Nationwide's Business"*. Based on Nationwide's share of protected deposits, Nationwide pays levies to the FSCS to enable the scheme to meet claims against it. While it is anticipated that the substantial majority of claims will be repaid wholly from recoveries from the institutions concerned, there is the risk of a shortfall, such that the FSCS may place additional levies on all FSCS participants, which levies may be in significant amounts that may have a material impact on Nationwide's profits.

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

In common with other financial institutions which are subject to the FSCS, 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 administration of the Dunfermline Building Society resulted in additional levies on the industry to the banking failures of 2008 and 2009 amounting to £365 million, of which £42 million was paid by Nationwide across the financial years ended 4 April 2015 and 4 April 2016.

The latest communication from the FSCS is that the costs associated with the Dunfermline failure have now been recovered. However there can be no assurance that there will be no further actions taken under the Banking Act that may lead to further claims against the FSCS, and concomitant increased FSCS levies payable by Nationwide. Any such increases in Nationwide's costs and liabilities related to the levy may have a material adverse effect on its results of operations. Further costs and risks may also arise from discussions at national and EU levels around the future design of financial services compensation schemes, including increasing the scope and level of protection and moving to pre-funding of compensation schemes.

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

3. RISKS RELATED TO THE CCDS

CCDS are a financial instrument with complex features

CCDS 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 (including where CCDS are issued upon exchange or conversion of other securities which may permit or require such securities to be converted to CCDS either at the option of the Society or the holders or upon the occurrence of one or more specified events). The Offer of the Further CCDS is being conducted on a non-pre-emptive basis, since all of the subscription price to be received by the Society is to be paid otherwise than in cash – see paragraph 11 "*Settlement of the Offer*" of "Part VII – *Details of the Offer*" of this Prospectus.

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 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 additional CCDS and other instruments ranking in priority to the CCDS at any time. Any such additional 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, whilst there is an established secondary trading market for CCDS, it may not be or remain liquid. 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.

Whilst there is an established secondary market for CCDS, there can be no assurance that such market will be or remain liquid, and such market may be more volatile than for more conventional investments with a developed secondary market. 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. Market prices (to the extent 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 trading 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).

The AT1 Securities rank senior to CCDS. It is the Board's current intention that, whenever exercising its discretion to declare distributions in respect of the CCDS, or its discretion to cancel interest on the AT1 Securities, the Board will take into account the relative ranking of these instruments in its capital structure. However, the Board may at any time depart from this policy at its sole discretion.

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, CRD IV requires the Society to maintain additional capital buffers which may be varied by the PRA or the FPC 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 or certain other discretionary payments (such as discretionary employee bonuses or interest payments on the AT1 Securities), to the extent that such payments would decrease its Common Equity Tier 1 capital to a level where the combined buffer requirement is not met in full 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' (**MDA**) calculated in accordance with Article 141. The Common Equity Tier 1 capital used to satisfy the combined buffer requirement cannot also be used to satisfy the Society's minimum capital requirement, Pillar 2A additional individual capital requirement or MREL requirement, each of which must be met in full before Common Equity Tier 1 capital can be applied to meeting the combined buffer requirement. Accordingly, to the extent that any increases in the Society's Pillar 2A or MREL requirements are, or are required to be, met with Common Equity Tier 1 capital, the amount of Common Equity Tier 1 capital available to meet the combined buffer requirement may be reduced. The Society's capital requirements (including individual guidance or, under CRD IV, Pillar 2A requirements) are, by their nature, calculated by reference to a number of factors any one of which or combination of which may not be easily observable or capable of calculation by investors. 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.

As more fully described under "*Part XVI – Capital Adequacy – Regulatory Developments - Capital planning for risk-based requirements*", for present capital planning purposes, Nationwide is currently anticipating an end-state CET1 capital requirement equal to 12.9 per cent. of RWAs. As at 4 April 2017, Nationwide had a CET1 ratio of 25.4 per cent., suggesting headroom of approximately £4.2 billion over the buffer requirement. The capital framework does not provide any automatic MDA restriction on a leverage basis.

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.

On 3 May 2017, the Society announced the most recent adjustment to the Cap, being £15.67, which is applicable to Distributions which were declared in respect of the financial year to 4 April 2017.

The Cap applicable to Distributions (if any) which may be paid in respect of the financial year to 4 April 2018 (in which regard, the Board is currently targeting an interim Distribution payment in December 2017 of £5.125 per CCDS (including Further CCDS) and a final Distribution payment in June 2018 of £5.125 per CCDS (including Further CCDS)) will be determined by applying the CPI annual inflation percentage published by the Office for National Statistics in its statistical bulletin for March 2018 to the prevailing Cap in respect of the financial year to 4 April 2017 of £15.67.

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 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, or if the Society alters its Distribution Policy to reduce the target level of Distributions on the CCDS, 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 additional CCDS and other instruments ranking in priority to the CCDS at any time. Any such additional 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 additional 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 instruments convertible into or exchangeable for CCDS including, but not limited to, the Society's AT1 Securities, which would under their terms automatically convert to CCDS if the Society's CET1 ratio were to fall below 7 per cent., and may include instruments which, in a stress scenario, are convertible into or exchangeable for CCDS at the option of the Society or at the option of holders of such instruments. 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 (including, without limitation, where Additional CCDS are issued upon conversion of, or in exchange for, other securities issued by the Society); (iii) issues of Additional CCDS pursuant to any remuneration scheme operated by the Society; and (iv) issues of Additional 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 or upon conversion of any securities into CCDS.

The Offer of the Further CCDS is being conducted on a non-pre-emptive basis since all of the subscription price to be received by the Society is to be paid otherwise than in cash – see paragraph 11 "*Settlement of the Offer*" of "Part VII – *Details of the Offer*" of this Prospectus. In determining whether to conduct any future offers of CCDS on a pre-emptive basis or a non-pre-emptive basis, the Board will have regard to the interests of the members of the Society as a whole, including the CCDS holders, and would expect to proceed on a non-pre-emptive basis where it concludes that to do so would be in the best of interests of the Society and its members as a whole.

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 2.8 "*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 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.

Furthermore, in the event of a demutualisation of the Society, there can be no assurance that the business model, risk approach or strategic ambition of the Successor Entity will be similar to that of the Society, and there can be no assurance that the holding of ordinary shares in a Successor Entity will offer a similar risk profile or return on investment when compared with CCDS. For example, any dividend policy of the Successor Entity may be significantly different from the Board's Distribution Policy in respect of the CCDS. Furthermore, building societies are organised under the provisions of the Building Societies Act 1986, as amended (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 (i) defining the purpose of a building society as "that of making loans which are secured on residential property and funded substantially by its members"; (ii) restricting the ability of building societies to engage in certain wholesale banking activities (for example, acting as a market maker in securities, commodities or currencies, trading in commodities or currencies, entering into certain transactions involving derivatives and limiting the risks for which derivatives hedging may be used); (iii) specifying certain limitations on the amount of non-mortgage lending that a building society is able to write (a minimum of 75 per cent. of loan assets, excluding liquid assets and fixed assets, must be secured on residential property); and (iv) limiting the volume of wholesale funding a building society may raise (at least 50 per cent. of funding (calculated in accordance with the Act) is required to be raised from retail depositors). A Successor Entity may not be constrained in these or similar respects under its governing legislation, and accordingly its business strategy could involve a greater degree of risk than that of the Society due to factors such as (but not limited to) increased risk appetite, a more aggressive approach to risk management, increased leverage, greater reliance on wholesale funding and/or unsecured lending and increased use of derivative investments or proprietary trading.

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 undertakes 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 Standard Listing of the CCDS will afford investors a lower level of regulatory protection than a Premium Listing

The Existing CCDS are, and an application will be made for the Further CCDS to be, admitted to the Standard Listing segment of the Official List. A Standard Listing affords 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 12 "*Consequences of a Standard Listing*" of "*Part VII: 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 Existing CCDS are represented by a global certificate registered in the name of Citivic Nominees Limited as nominee (the **Nominee**) for the Clearing Systems. Upon issue of the Further CCDS, the global certificate will be marked up to reflect an increase in the number of CCDS represented thereby such that the global certificate will reflect all CCDS outstanding. 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 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

The trading price of the CCDS in the secondary markets (if any such price continues to be quoted) 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, 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;
- changes (or expected changes) to the Board's Distribution Policy in respect of the CCDS, or any decision by the Board to depart from its Distribution Policy;
- 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 BoE 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 Further 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 Existing CCDS would be admitted to its systems without a 97A election applying to the Existing CCDS, and each Clearing System has re-confirmed that position in respect of the issue of the Further 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.

PART III – INCORPORATION BY REFERENCE

The following documents have previously been published or are published simultaneously with this Prospectus and have been admitted to and filed with the FCA and shall be deemed to be incorporated in, and form part of, this Base Prospectus:

(1) Nationwide's audited consolidated financial statements as of and for the financial year ended 4 April 2017 (including the notes thereto), and the auditors' report thereon (the **2017 Financial Statements**);

(2) Nationwide's audited consolidated financial statements as of and for the financial year ended 4 April 2016 (including the notes thereto), and the auditors' report thereon (the **2016 Financial Statements**);

(3) Nationwide's audited consolidated financial statements as of and for the financial year ended 4 April 2015 (including the notes thereto), and the auditors' report thereon (the **2015 Financial Statements** and, together with the 2017 Financial Statements and the 2016 Financial Statements, the **Consolidated Historical Financial Statements**); and

(4) Nationwide's interim management statement for the three-month period ended 30 June 2017.

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

The table below sets out the relevant page references for the Consolidated Historical Financial Statements.

2017 Financial Statements

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In addition, certain tables included elsewhere in Nationwide's Annual Report and Accounts 2017 form part of the 2017 Financial Statements. These tables are identified below:

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In addition, certain tables included elsewhere in Nationwide's Annual Report and Accounts 2016 form part of the 2016 Financial Statements. These tables are identified below:

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Any non-incorporated parts of a document referred to herein are either deemed not relevant for an investor or are otherwise covered elsewhere in this Prospectus.

Any documents themselves incorporated by reference in the documents incorporated by reference in this Prospectus shall not form part of this Prospectus.

PART IV – DIRECTORS, PRINCIPAL AND HEAD OFFICE AND ADVISERS

Directors

David Roberts	Chairman
Joe Garner	Chief Executive Officer
Mark Rennison	Chief Financial Officer
Chris Rhodes	Chief Products and Propositions Officer
Tony Prestedge	Chief Relationships and Distribution Officer
Rita Clifton	Non-Executive Director
Mitchel Lenson	Non-Executive Director
Lynne Peacock	Non-Executive Director
Mai Fyfield	Non-Executive Director
Tim Tookey	Non-Executive Director
Kevin Parry	Non-Executive Director
Baroness Usha Prashar	Non-Executive Director
Gunn Waersted	Non-Executive Director

Principal Office and Head Office	Nationwide House Pipers Way Swindon SN38 1NW United Kingdom Tel: +44 (0) 1793 513 513
Joint Bookrunners	Barclays Bank PLC 5 The North Colonnade Canary Wharf London E14 4BB United Kingdom
	Citigroup Global Markets Limited Citigroup Centre Canada Square Canary Wharf London E14 5LB 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 5 Broadgate London EC2M 2QS United Kingdom

Co-lead Managers	BNP Paribas 10 Harewood Avenue London NW1 6AA United Kingdom
	The Royal Bank of Scotland plc (trading as NatWest Markets) 250 Bishopsgate London EC2M 4AA United Kingdom
English Law Advisers to the Society	Allen & Overy LLP One Bishops Square London E1 6AD United Kingdom
English Law Advisers to the Banks	Linklaters LLP One Silk Street London EC2Y 8HQ United Kingdom
Reporting Accountants	PricewaterhouseCoopers LLP 1 Embankment Place London WC2N 6RH United Kingdom
Registrar	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 V – 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. The Society's regulatory capital mainly comprises retained profit which has been built up over many years (Nationwide has made an annual profit for over 95 years). From time to time, this has been supplemented by issuing capital instruments to external investors, including Permanent Interest Bearing Shares, additional tier 1 instruments, tier 2 instruments and, in 2013, CCDS. CCDS constitute Common Equity Tier 1 (**CET1**) capital – the highest quality form of capital available to building societies.

Nationwide's capital position is stable and well in excess of regulatory requirements. With a CET1 ratio of 25.4 per cent. and a UK leverage ratio of 4.4 per cent. at 4 April 2017, the Society is well capitalised, both in absolute terms and relative to current and foreseeable requirements.

The Society intends to continue to manage its CET1 capital base via retained earnings, supplemented by CCDS when appropriate. Accordingly, CCDS are a strategically important instrument for the Society. The Society's reasons for issuing Further CCDS at this time are to re-affirm the relevance to the Society of CCDS, to demonstrate its continued access to inorganic CET1 capital and to seek to increase the liquidity of its CCDS. It does not indicate any intention to enter into any acquisition, merger or similar transaction. Whilst Nationwide does not need to issue the Further CCDS to meet its regulatory capital requirements, the issuance will further bolster the Society's CET1 capital, helping to support its strategic growth ambitions and to maintain its capital at prudent levels having regard to its present and anticipated future capital requirements.

2. EXPECTED TIMETABLE OF PRINCIPAL EVENTS

Launch and book-build in connection with the Offer	6 September 2017
Allocations of Further CCDS	7 September 2017
Publication of Prospectus	11 September 2017
Euroclear/Clearstream accounts credited	on or after 14 September 2017 (and no later than 21 September 2017)
Admission and commencement of dealings in the Further CCDS	8.00 a.m. on or after 14 September 2017 (and no later than 21 September 2017)
Recalculated Average Principal Amount and Core Capital Contribution Proportion published on Nationwide's website	As soon as reasonably practicable after settlement

References to times are to London time unless otherwise stated. Temporary documents of title will not be issued.

3. OFFER STATISTICS

Issue Price (per Further CCDS)(1)	£159.00
Number of Further CCDS being issued	5,000,000
Aggregate number of CCDS in issue immediately following the Offer	10,500,000
Estimated net proceeds of the Offer after expenses(2)	£795 million

Note:

(1) The Issue Price quoted above is exclusive of any amount attributable to potential future Distributions and, in line with market convention for secondary market trading, the final price payable by investors will also include an amount attributable to potential future Distributions, being £2.408 (rounded to three decimal places) per CCDS. Accordingly, the purchase price of Further CCDS acquired pursuant to the Offer shall be £161.408 (rounded to three decimal places) per CCDS (the **Purchase Price**). However, investors should note that the CCDS are common equity tier 1 instruments and the Society has full discretion whether or not to declare Distributions (in contrast to interest on a debt instrument, there is no accrual of Distributions on CCDS). Whilst, under its Distribution Policy, the Board is currently targeting an interim Distribution of £5.125 per CCDS for payment in December 2017,

the foregoing is not, and should not be construed as, a commitment to declare any such Distribution, and the Board shall be entitled, in its sole and absolute discretion, not to declare any such Distribution.

(2) The estimated net proceeds 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 £12 million.

PART VI – 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 Further 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 Further 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 Further 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 Further 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 Further 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 Further 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 Further CCDS pursuant to the Offer, 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 Statements

This Prospectus incorporates by reference the Society's 2017 Financial Statements, 2016 Financial Statements and 2015 Financial Statements. As stated in note 1 to the 2016 Financial Statements, Nationwide made certain adjustments to the comparative financial information as at and for the financial year ended 4 April 2015 included in the 2016 Financial Statements (such comparative financial information is referred to below as the **Adjusted Comparative Information**). As a result:

- all financial information as at, and for the financial year ended, 4 April 2017 included in this Prospectus has been derived from the 2017 Financial Statements;
- all financial information as at, and for the financial year ended, 4 April 2016 and any Adjusted Comparative Information included in this Prospectus has been derived from the 2016 Financial Statements;
- all other financial information as at, and for the financial year ended, 4 April 2015 included in this Prospectus has been derived from the 2015 Financial Statements.

The Consolidated Historical Financial Statements have been prepared in accordance with the requirements of the Prospectus Directive and the UK Listing Rules and in accordance with IFRS.

The Consolidated Historical Financial Statements have each been audited, without qualification, by PricewaterhouseCoopers LLP, independent auditors, in accordance with International Standards on Auditing (UK & Ireland) issued by the Auditing Practices Board in the United Kingdom.

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 Statements have not been prepared in accordance with UK GAAP, nor has Nationwide prepared a reconciliation or quantification of differences between IFRS and UK GAAP.

Unaudited financial information

Certain financial information in this Prospectus comprises unaudited financial information which has been extracted without material adjustment from the accounting records of Nationwide which form the underlying basis of the Consolidated Historical Financial Statements. In particular, financial information included within "*Part XVII: Selected Statistical Information*" is unaudited and has been extracted from Nationwide's management information systems.

Alternative performance measures and other non-IFRS financial information

Alternative performance measures

This Prospectus includes certain financial information which has not been prepared in accordance with IFRS and which also constitutes Alternative Performance Measures (**APM**s) as defined in the European Securities and Markets Authority Guidelines (**ESMA Guidelines**) on Alternative Performance Measures. Certain APMs are discussed below under "*Underlying profit before tax*" and are also identified under "*Selected Ratios and Other Financial Data*" in "*Part XIV: Selected Financial Information*" and in "*Part XVII: Selected Statistical Information*". None of this financial information is subject to any audit or review by independent auditors.

APMs are 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 other financial performance or condition computed in accordance with IFRS. Other companies, including those in financial services industry, may calculate the APMs presented differently from Nationwide. As all companies do not calculate these APMs in the same manner, Nationwide's presentation of the APMs may not be comparable to other similarly titled APMs presented by other companies.

Underlying profit before tax

Certain sections of this Prospectus, including "*Part XIV: Selected Financial Information*" and "*Part XV: Operating and Financial Review*", discuss underlying profit before tax, which is not a measure of financial performance under IFRS and which is an APM. 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 (the **FSCS**), bank levy charges and transformation 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 other financial performance or condition 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 underlying profit before tax to reported profit before tax for each of the three financial years ended 4 April 2017.

	Financial year ended 4 April		
	2017	**2016**	**2015**
		(*£ millions*)	
Net interest income	2,960	3,086	2,872
Net other income	325	247	291
Total underlying income	**3,285**	**3,333**	**3,163**
Underlying administrative expenses	(1,979)	(1,796)	(1,626)
Impairment losses	(140)	(73)	(251)
Underlying provisions for liabilities and charges	(136)	(127)	(59)
Underlying profit before tax	**1,030**	**1,337**	**1,227**
Transformation costs[1]	—	(10)	(52)
Bank levy[1]	(42)	(41)	(28)
FSCS[1]	—	(46)	(83)
Gains/(losses) from derivatives and hedge accounting[1][2]	66	39	(20)
Statutory profit before tax	**1,054**	**1,279**	**1,044**

Notes:

(1) Within the statutory results presented in the Consolidated Historical Financial Statements:
  (a) transformation costs and bank levy are included within administrative expenses;
  (b) FSCS costs are included within provisions for liabilities and charges; and
  (c) gains from derivatives and hedge accounting are presented separately within total income.

(2) Although Nationwide only uses derivatives to hedge market risks, income statement volatility can still arise due to hedge accounting ineffectiveness or because hedge accounting is either not currently applied or is not currently achievable. This volatility is largely attributable to accounting rules which do not fully reflect the economic reality of the hedging strategy.

Net interest margin

Net interest margin is not a measure of financial performance under IFRS. In determining net interest margin, Nationwide divides its net interest income for each financial year (as shown in its consolidated annual financial statements) by its weighted average total assets. Weighted average total assets are calculated using balance sheet values at the end of each calendar month in the financial year. Nationwide believes that net interest margin is an important supplemental measure of its operating performance and believes that it may be used by securities analysts, investors and other interested parties in the evaluation of Nationwide's performance in comparison with other building societies and financial institutions. However, net interest margin 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 financial institutions may calculate net interest margin differently from Nationwide and Nationwide's presentation of net interest margin may not be comparable to other similarly titled measures of other financial institutions.

The following table sets out the calculation of Nationwide's net interest margin for each of the three financial years ended 4 April 2017.

	Financial year ended 4 April		
	2017	2016	2015
	(*£ millions, except percentages*)		
Net interest income	2,960	3,086	2,872
Weighted average total assets	222,901	203,623	195,429
Net interest margin	**1.33%**	**1.52%**	**1.47%**

Other APMs

The other APMs included in this document are certain ratios set out in "*Part XIV: Selected Financial Information*" under the heading "*Selected Ratios and Other Financial Data*" and in "*Part XVII: Selected Statistical Information*". These ratios have been included in this Prospectus because Nationwide considers them to be important supplemental measures of its operating performance and financial position and believes that they may be used by securities analysts, investors and other interested parties in the evaluation of Nationwide's performance in comparison with other building societies and financial institutions.

Other non-IFRS financial information

Capital and leverage ratios

This Prospectus includes references to capital and leverage ratios applied under the Capital Requirements Directive IV (**CRD IV**), which together with the Capital Requirements Regulation (**CRR**), implements the Basel III reforms developed in response to the global financial crisis in the European Union, and by the Prudential Regulatory Authority (the **PRA**). These ratios measure the Group's capital adequacy and financial strength, respectively. The capital ratios comprise:

- the Common Equity Tier 1 ratio (**CET1 ratio**), which expresses CET1 capital (including the CCDS) as a percentage of risk weighted assets (**RWAs**). CET1 capital is the highest-quality form of capital defined in CRD IV and comprises accumulated reserves and qualifying instruments after regulatory deductions. RWAs represent the value of assets as adjusted in accordance with CRD IV to reflect the degree of risk that they represent;

- the total tier 1 ratio, which expresses total tier 1 capital as a percentage of RWAs. Tier 1 capital comprises CET1 capital and additional tier 1 (**AT1**) capital instruments (which are instruments meeting defined criteria under CRD IV, including that they convert to CET1 or their principal is written down on the occurrence of a trigger event); and

- the total regulatory capital ratio, which expresses total regulatory capital (which is capital allowed under applicable regulations less required adjustments and deductions) as a percentage of RWAs.

Each of these capital ratios has been reported in this document on a CRD IV end point basis.

The leverage ratios measure tier 1 capital as a proportion of exposures on a non-risk weighted basis and comprise:

- the CRR leverage ratio (which measures exposures as the sum of (i) on-balance sheet exposures, adjusted for derivatives and securities financing exposures, and (ii) off-balance sheet items); and

- the UK leverage ratio (which is calculated in this document as at 4 April 2016 and as at 4 April 2017 on the basis of measurement announced by the PRA in August 2016, which is the same as that used in the CRR leverage ratio, save that the exposure measure excludes eligible central bank reserves).

Although the capital and leverage ratios and 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.

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**, **sterling** 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 XI: Description of Nationwide's Business*" and "*Part XV: Operating and Financial Review*" as well as the Consolidated Historical Financial Statements incorporated by reference in this document 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 BoE and UK Finance. 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, save in respect of any information specifically incorporated by reference in this document which also appears on the Society's website, 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 figures contained in this Prospectus, including financial information, have been subject to rounding adjustments. Accordingly, in certain instances, the sum of the numbers in a column or a row in tables contained in this Prospectus may not conform exactly to the total figure given for that column or row. Percentages in tables have been rounded and accordingly may not add up to 100 per cent. Where the figure "0" appears in a table it means that the relevant item has been rounded to zero. Where a "—" appears in a table, it means that there is no figure for the relevant item.

9. BUILDING SOCIETIES AND BANKS

For a discussion of certain key differences between UK building societies and banks, see "*Part X: 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 VII – DETAILS OF THE OFFER

1. FURTHER CCDS SUBJECT TO THE OFFER AND CONSOLIDATION WITH EXISTING CCDS

Pursuant to the Offer, the Society will issue 5,000,000 Further CCDS. The Society expects to raise approximately £795 million pursuant to the Offer, after deduction of taxes, underwriting commissions and other fees and expenses of up to approximately £12 million payable by the Society.

The Further CCDS will upon issue be consolidated and form a single series with the Existing CCDS. Accordingly, if the Society elects to declare an interim Distribution on the CCDS for payment in December 2017, investors in the Further CCDS will (provided they continue to hold their Further CCDS at close of business on the ICSD Business Day immediately prior to the due date for payment) be entitled to receive such Distribution in full. **ICSD Business Day** means a day on which Euroclear and Clearstream, Luxembourg are open for business.

The Board is currently targeting an interim Distribution payment in December 2017 of £5.125 per CCDS However, the Society is under no obligation to declare an interim Distribution.

2. THE OFFER

Under the Offer, the Further 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 Further CCDS are subject to the restrictions set out in paragraph 13 "*Selling Restrictions*" below.

Participants in the Offer have been or 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 Further CCDS allocated to them at the Purchase 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 Further 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 Further 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.

Restriction on marketing and sales to retail investors: The Further CCDS are not intended to be sold and should not be sold to retail clients in the European Economic Area, as defined in the rules set out in the Product Intervention (Contingent Convertible Instruments and Mutual Society Shares) Instrument 2015 and COBS 22.2, as amended or replaced from time to time, other than in circumstances that do not and will not give rise to a contravention of those rules by any person. The offer of Further CCDS described in this Prospectus is not being made to any such 'retail clients', and neither the Society nor the Banks will offer or sell Further CCDS to any such 'retail clients', nor will the Society or any Bank at any time take, or be required to take, any action which would facilitate an offer or sale of any CCDS to any retail client. By purchasing, or making or accepting an offer to purchase, any Further CCDS (or a beneficial interest therein) from the Society and/or any Bank, each prospective investor will make certain representations, warranties, agreements with and undertakings to the Society and the Banks. Prospective investors are referred to the section headed "*Restrictions on marketing and sales to retail investors*" commencing on page 3 of this Prospectus for further information.

The distribution of this Prospectus and the offer and sale of the Further CCDS are subject to the restrictions set out in paragraph 13 "*Selling Restrictions*" below.

Under the Offer, all Further CCDS will be issued at the Issue Price. Investors acquiring Further CCDS pursuant to the Offer will be required to pay the Purchase Price per Further CCDS.

3. UNDERWRITING

The Society and the Banks 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, the Joint Bookrunners have severally agreed to use reasonable endeavours to procure subscribers for the Further CCDS under the Offer and, failing which, the Banks have severally agreed to subscribe for themselves (in agreed proportions) the Further CCDS under the Offer. For the avoidance of doubt, the underwriting obligations of the Banks relate only to the settlement risk that an investor who has been allotted Further CCDS in the Offer fails to make payment for such Further CCDS on or before the Issue Date. Allocations under the Offer are determined by the Society – see "*Bookbuilding and Allocation*" below.

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 Banks to be paid a commission based on the overall proceeds of the Offer. The Society has given the Banks certain customary representations, warranties and undertakings and 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 have been engaged by the Society to solicit from prospective investors indications of interest in acquiring Further CCDS under the Offer. There is no maximum number of Further CCDS which can be applied for under the Offer. However, the Minimum Investment in Further CCDS pursuant to the Offer is 1,258 Further CCDS (reflecting a minimum total consideration of approximately £200,000 per investor at the Purchase Price).

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. For the avoidance of doubt, the Minimum Investment applies only to the purchase or subscription of Further CCDS in the Offer. With respect to any secondary market trading in the CCDS (including the Further CCDS) the minimum transfer amount of 250 CCDS will continue to apply.

Allocations under the Offer are made in accordance with customary allocation processes and procedures and in accordance with applicable law and regulation. Final allocations under the Offer are determined by the Society having regard to a range of factors, including, *inter alia*, the level and nature of demand for the Further CCDS in the Offer and the objective of continuing an orderly and liquid after-market in the CCDS. In addition, in making any final determination of allocations in respect of the Further CCDS, the Society is entitled (but not obliged) to take into account any current holding of Existing CCDS by investors who express an interest in purchasing Further CCDS pursuant to the Offer. Prospective investors are invited to provide written confirmation of any such holding of Existing CCDS to the Joint Bookrunners promptly in the bookbuilding process, and will be deemed upon provision of such written confirmation to represent and warrant to the Banks and the Society that such written confirmation is true and accurate in all respects. Any holding of Existing CCDS is one of many factors which the Society may elect, in its sole discretion, to take into account in determining final allocations for the Further CCDS. Accordingly, there is no guarantee that the provision of confirmation of Existing CCDS holdings to the Joint Bookrunners by investors will result in an allocation of Further CCDS to those investors, or that any allocation will bear any correlation to the size of any such existing holding. The Society and the Joint Bookrunners shall be entitled, but not required, to enquire further in respect of any written confirmation of holdings provided by investors in the Existing CCDS, and each of them shall be entitled to rely on any such written confirmation without liability to any person.

In the event of allocations being scaled down due to excess demand, applicants may receive fewer Further CCDS than initially applied for. All final allocations of Further CCDS are at the discretion of the Society and there is no obligation for such Further CCDS to be allocated proportionately (and some applicants may receive no Further 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 Further 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 to this Prospectus, applicants who have applied for Further 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 Further CCDS in the Offer in its entirety. The right to withdraw an application to subscribe for or purchase Further 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 Further 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, J.P. Morgan (as Stabilisation Manager) (or any person acting on behalf of the Stabilisation Manager) may over-allot CCDS 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. However, stabilisation may not necessarily occur. Any stabilisation action may begin on or after the date on which adequate public disclosure of the Issue Price was made and must end no later than the day falling 30 calendar days after the date of allotment of the Further CCDS. Any stabilisation action or over-allotment must be conducted by the Stabilisation Manager (or persons acting on behalf of the Stabilisation Manager) in accordance with all applicable laws and rules.

In connection with the Offer, the Society granted J.P. Morgan as Stabilisation Manager on behalf of the Banks, the Over-allotment Option, pursuant to which the Stabilisation Manager was entitled to require the Society to make available additional CCDS of up to 15 per cent. of the aggregate number of Further CCDS available in the Offer (before any exercise of the Over-Allotment Option) to cover over-allotments, if any, made in connection with the Offer. The Over-allotment Option was capable of being exercised, in whole or in part, at any time during the period commencing on the date on which adequate public disclosure of the Issue Price was made and ending on the London business day falling immediately prior to this Prospectus. The Over-allotment Option was not exercised, and accordingly no Further CCDS are to be issued as a result of the exercise of the Over-allotment Option.

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 Banks.

8. DEALING ARRANGEMENTS

Admission is expected to become effective, and dealings in the Further CCDS are expected to commence on the London Stock Exchange, at 8.00 a.m. on or after 14 September 2017 but not later than 21 September 2017.

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

The Existing CCDS are represented by a global certificate registered in the name of the Nominee for the Clearing Systems. Upon issue of the Further CCDS, the global certificate will be marked up to reflect an increase in the number of CCDS represented thereby such that the global certificate will reflect all CCDS outstanding. 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 all of 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 provides 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 14 September 2017 (or such later date which the Society and the Joint Bookrunners, on behalf of the Banks may agree). See paragraph 11 "*Underwriting arrangements*" of "*Part XXI: – Additional Information*" for further details about the underwriting arrangements.

11. SETTLEMENT OF THE OFFER

Settlement of the Offer is expected to occur on 14 September 2017 or shortly thereafter (and no later than 21 September 2017). On the settlement date, the securities accounts of Euroclear and Clearstream, Luxembourg will be credited with the Further CCDS issued pursuant to the Offer.

The settlement of the Offer will proceed on the following basis. The Society owns all of the issued ordinary shares in Stockwood Finance. The Subscriber (or an agent appointed for such purpose) will receive monies from the investors in the Further CCDS. Provided certain conditions are met, the Subscriber will use the proceeds to subscribe for redeemable preference shares in Stockwood Finance. The Society will issue the Further CCDS in consideration for the Subscriber transferring its holdings of redeemable preference shares in Stockwood Finance to the Society. Accordingly, instead of receiving cash as consideration for the issue of the Further CCDS, at the conclusion of the Offer, the Society will own the entire issued share capital of Stockwood Finance. The assets of Stockwood Finance at that time will be its cash reserves and a receivable due from the Society in respect of the commissions and expenses payable to the Banks which will in aggregate represent an amount approximately equal to the gross proceeds of the issue of the Further CCDS. The Society will be able to utilise this amount if Stockwood Finance elects to redeem the redeemable preference shares or to advance the funds to the Society by way of loan in the interim.

12. CONSEQUENCES OF A STANDARD LISTING

THE EXISTING CCDS ARE, AND AN APPLICATION WILL BE MADE FOR THE FURTHER 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 9 of the Listing Rules relating to Continuing Obligations;
- 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.

13. SELLING RESTRICTIONS

The distribution of this Prospectus and the offering and sale of Further 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 Further CCDS, or possession or distribution of this Prospectus or any other offering or publicity material relating to the Further CCDS, in any country or jurisdiction where action for that purpose is required.

None of the Further 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 Further 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.

United Kingdom

Each of the Banks 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 Further 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 Further 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 Further 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 Further CCDS may not be offered or sold within the United States. Accordingly, the Banks have agreed to offer and sell the Further 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 Further 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 Further 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

No prospectus or other disclosure document (as defined in the Corporations Act 2001 of Australia (**Corporations Act**)) in relation to the Further CCDS has been or will be lodged with the Australian Securities and Investments Commission (**ASIC**). Each of the Banks has represented and agreed that it:

(a) has not (directly or indirectly) offered, and will not offer for issue or sale and has not invited, and will not invite, applications for issue, or offers to purchase, the Further CCDS in, to or from Australia (including an offer or invitation which is received by a person in Australia); and

(b) has not distributed or published, and will not distribute or publish, this Prospectus, any information memorandum, advertisement or other offering material relating to the Further CCDS in Australia, unless (1) the aggregate consideration payable by each offeree or invitee is at least AUD500,000 (or its equivalent in other currencies, disregarding moneys lent by the offeror or its associates) or the offer or invitation otherwise does not require disclosure to investors in accordance with Part 6D.2 or Part 7.9 of the Corporations Act, (2) the offer or invitation is not made to a person who is a "retail client" within the meaning of section 761G of the Corporations Act, (3) such action complies with all applicable laws, regulations and directives and (4) such action does not require any document to be lodged with ASIC.

Hong Kong

No Further 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 Further 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 Further 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

Each of the Banks has acknowledged that this Prospectus has not been registered as a prospectus with the Monetary Authority of Singapore (the **MAS**). Accordingly, each Bank has represented, warranted and agreed that it has not offered or sold any Further CCDS or caused the Further CCDS to be made the subject of an invitation for subscription or purchase and will not offer or sell any Further CCDS or cause the Further CCDS to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, this Prospectus or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Further CCDS, whether directly or indirectly, to any person in Singapore other than: (a) to an institutional investor (as defined in Section 4A of the Securities and Futures Act (Chapter 289 of Singapore) (the **SFA**) pursuant to Section 274 of the SFA; (b) to a relevant person (as defined in Section 275(2) of the SFA) pursuant to Section 275(1) of the SFA, or any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA; or (c) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the Further CCDS are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

(a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or

(b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities (as defined in Section 239(1) of the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Further CCDS pursuant to an offer made under Section 275 of the SFA except:

(1) to an institutional investor or to a relevant person defined in Section 275(2) of the SFA, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA

(2) where no consideration is or will be given for the transfer;

(3) where the transfer is by operation of law;

(4) as specified in Section 276(7) of the SFA; or

(5) as specified in Regulation 32 of the Securities and Futures (Offers of Investments) (Shares and Debentures) Regulations 2005 of Singapore.

Switzerland

The Further CCDS may not be publicly offered in Switzerland and will not be listed on the SIX Swiss Exchange (**SIX**) or on any other stock exchange or regulated trading facility in Switzerland. This Prospectus does not constitute an issue prospectus under art. 652a or art. 1156 of the Swiss Code of Obligations or a listing prospectus under art. 27 ff. of the SIX Listing Rules or the listing rules of any other stock exchange or regulated trading facility in Switzerland and has been prepared without regard to the disclosure standards thereunder. Neither this Prospectus nor any other offering or marketing material relating to the Offer, the Society or the Further CCDS 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 Further 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 Further CCDS will not be supervised by, the Swiss Financial Market Supervisory Authority FINMA, and the offer of Further 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 Further CCDS.

Jersey

The Jersey Financial Services Commission has given, and has not withdrawn, its consent under Article 8 of the Control of Borrowing (Jersey) Order 1958 to the circulation in Jersey of an offer for subscription, sale or exchange of the Further CCDS in the form of this Prospectus. The Jersey Financial Services Commission is protected by the Control of Borrowing (Jersey) Law 1947, as amended against liability arising from the discharge of its functions under that Law. This Prospectus may only be circulated in Jersey by persons registered to carry on investment business under the Financial Services (Jersey) Law 1998 and acting in accordance with the terms of such registration.

Guernsey

To the extent to which any promotion of the Further CCDS is deemed to take place in the Bailiwick of Guernsey, the Further 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) by reverse solicitation. Promotion is not being made in any other way.

General

Each of the Banks has agreed that it will (to the best of its knowledge and belief) comply with all applicable securities laws and regulations in force in any jurisdiction in which it purchases, offers, sells or delivers the Further CCDS or possesses or distributes this Prospectus and will obtain any consent, approval or permission required by it for the purchase, offer, sale or delivery by it of the Further CCDS under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, offers, sales or deliveries and neither the Issuer nor any other Bank shall have responsibility therefor. Neither the Society nor any of the Banks represents that the Further CCDS may at any time lawfully be sold in compliance with any applicable registration or other requirements in any jurisdiction, or pursuant to any exemption available thereunder, or assumes any responsibility for facilitating such sale.

Restriction on marketing and sales to retail investors: In addition to the offer and selling restrictions above, the Further CCDS are not intended to be sold and should not be sold to retail clients in the European Economic Area, as defined in the rules set out in the Product Intervention (Contingent Convertible Instruments and Mutual Society Shares) Instrument 2015 and COBS 22.2, as amended or replaced from time to time, other than in circumstances that do not and will not give rise to a contravention of those rules by any person. By purchasing, or making or accepting an offer to purchase, any Further CCDS (or a beneficial interest therein) from the Society and/or any Bank, each prospective investor will make certain representations, warranties, agreements with and undertakings to the Society and the Banks. Prospective investors are referred to the section headed "*Restrictions on marketing and sales to retail investors*" commencing on page 3 of this Prospectus for further information.

14. DISTRIBUTION POLICY

In 2013, the Society's Board of Directors published its Distribution Policy in respect of Distributions to be declared in respect of the CCDS. As at the date of this Prospectus, the Distribution Policy has not been amended since its original publication. The Distribution Policy is not binding on the Society, and the Board may, at its discretion, amend the Distribution Policy or depart from it at any time.

The Distribution Policy, as it applies as at the date of this Prospectus, is summarised below:

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.

Taking into account the policy set out above, the Board is currently targeting an interim Distribution of £5.125 per CCDS for payment in December 2017 and a final Distribution of £5.125 per CCDS for payment in June 2018.

The Further CCDS will upon issue be consolidated and form a single series with the Existing CCDS. Accordingly, if the Society elects to declare an interim Distribution on the CCDS for payment in December 2017, investors in the Further CCDS will (provided they continue to hold their Further CCDS at close of business on the ICSD Business Day immediately prior to the due date for payment) be entitled to receive such Distribution in full. **ICSD Business Day** means a day on which Euroclear and Clearstream, Luxembourg are open for business.

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 VIII − 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.

On 3 May 2017, the Society announced the most recent adjustment to the Cap, being £15.67, which is applicable to Distributions which were declared in respect of the financial year to 4 April 2017.

Accordingly, the Cap applicable to Distributions (if any) which may be paid in respect of the financial year to 4 April 2018 (in which regard, the Board is currently targeting an interim Distribution payment in December 2017 of £5.125 per CCDS (including Further CCDS) and a final Distribution payment in June 2018 of £5.125 per CCDS (including Further CCDS)) will be determined by applying the CPI annual inflation percentage published by the Office for National Statistics in its statistical bulletin for March 2018 to the prevailing Cap in respect of the financial year to 4 April 2017 of £15.67.

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.

With respect to the Distribution Policy of the Board as at the date of this Prospectus, see paragraph 14 "Distribution Policy" of "Part VII: Details of the Offer" above.

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 IX: 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 Existing CCDS have been paid up in full and the Further 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 IX – 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 "($CCCP_{DT-1}$ 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:

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

where:

New Issue Amount$_{\mathbf{DT}}$ 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$_{\mathbf{DT-1}}$ 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$_{\text{DT-1}}$ shall be zero);

Core Capital$_{\mathbf{DT}}$ 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$_{\text{DT}}$ as a result of any new CCDS being issued at time DT, (ii) any Cancellation Adjustment Amount$_{\text{DT}}$ 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$_{\mathbf{DT}}$ 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$_{\mathbf{DT}}$ is an amount (which, for the avoidance of doubt, shall be zero if no CCDS are being cancelled at time DT) equal to:

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

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.

On 3 May 2017, the Society announced the most recent adjustment to the Cap, being £15.67, which is applicable to Distributions which were declared in respect of the financial year to 4 April 2017.

Accordingly, the Cap applicable to Distributions (if any) which may be paid in respect of the financial year to 4 April 2018 (in which regard, the Board is currently targeting an interim Distribution payment in December 2017 of £5.125 per CCDS (including Further CCDS) and a final Distribution payment in June 2018 of £5.125 per CCDS (including Further CCDS)) will be determined by applying the CPI annual inflation percentage published by the Office for National Statistics in its statistical bulletin for March 2018 to the prevailing Cap in respect of the financial year to 4 April 2017 of £15.67.

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 Distribution Policy as at the date of this Prospectus is summarised at paragraph 14 "Distribution Policy" of "Part VII: Details of the Offer" of this Prospectus.

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. For so long as all CCDS are held in the Clearing Systems, the Record Date shall be determined in accordance with this Condition 6.1, save that the words "fifteenth day" shall be deemed to be replaced with "ICSD Business Day", which means a day on which the Clearing Systems are open for business.

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 6.2, 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 X – INDUSTRY OVERVIEW

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

In the first six months of 2017, the UK economy grew by 1.8 per cent. compared with the same period of the previous year - the same as the 1.8 per cent. average annual rate of growth recorded in 2016 as a whole, though modestly below the 2.2 per cent. average annual growth rate recorded in 2015.

The UK unemployment rate declined from 5.1 per cent. in the three months to December 2015 to 4.8 per cent. in the three months to December 2016 and to 4.4 per cent. in the three months to June 2017. Consumer price inflation (measured by the percentage change in the consumer price index over 12 months) has been increasing in recent years and was 1.6 per cent. in December 2016 and 2.7 per cent. in June 2017, with the increase driven to a large extent by the depreciation of sterling following the UK's EU-exit referendum in the summer of 2016. The Bank of England's Monetary Policy Committee (**MPC**) maintained interest rates at 0.5 per cent. from 2009 to mid-2016 and reduced them to 0.25 per cent. in August 2016. Total asset purchases on a cumulative basis under quantitative easing were £427.8 billion in December 2016 and £445 billion on 31 July 2017. According to Nationwide's House Price Index, UK house prices increased by 4.4 per cent. over the 12-month period to December 2015, by 4.5 per cent. over the 12-month period to December 2016, and by 3.1 per cent. over the 12-month period to June 2017. 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.

	2017	**2016**	**2015**	**2014**	**2013**
GDP Annual growth rate[(1)]	1.7%	1.9%	1.7%	3.5%	2.4%
Bank of England Bank Rate (*per cent.*)[(2)]	0.25%	0.25%	0.50%	0.50%	0.50%
Bank of England total asset purchases (*£ billions*)[(3)]	445.0	427.8	374.9	374.9	375.0
Consumer prices index inflation (*per cent.*)[(4)]	2.7%	1.6%	0.2%	0.5%	2.0%
Unemployment rate (*per cent.*)[(5)]	4.4%	4.8%	5.1%	5.7%	7.2%
Nationwide House Price Index[(6)]	3.1%	4.5%	4.4%	7.1%	8.2%

Notes:

(1) Data for the fourth quarter of each year (on a year on year basis) and the second quarter of 2017 (compared to previous quarter), seasonally adjusted, GDP at constant prices. Source: Office for National Statistics (**ONS**).

(2) As at 31 July 2017 and 31 December in each of 2016, 2015, 2014 and 2013. Source: Bank of England.

(3) Cumulative quantity of assets purchased by the creation of central bank reserves on a settled basis as at 31 July 2017 and 31 December in each of 2016, 2015, 2014 and 2013. Source: Bank of England.

(4) Percentage change in the consumer price index over 12 months as at April 2017 and December 2016, 2015, 2014 and 2013. Source: ONS.

(5) Summary of National Labour Force Survey data, all persons aged 16 and over, seasonally adjusted. Unemployment rate for three months to June 2017 and three months to December 2016, 2015, 2014 and 2013. Source: ONS.

(6) Seasonally adjusted index over 12 months as at June 2017 and December 2016, 2015, 2014 and 2013. 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 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 "*Competition in the UK personal financial services markets may adversely affect Nationwide's operations*" in section 1 "*Risks relating to Nationwide's business*" of "*Part II: Risk Factors*").

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

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 helps to preserve diversity and competition in the UK financial services market.

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 wholesale banking activities (for example, acting as a market maker in securities, commodities or currencies, trading in commodities or currencies, entering into certain transactions involving derivatives and limiting the risks for which derivatives hedging may be used);
- 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 (calculated in accordance with the Act) 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 44 as at 31 August 2017. 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.

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 Bank 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 59 per cent. of mortgage lending and approximately 54 per cent. of household savings as at 31 December 2016 (according to data produced by the BoE) and are therefore both the key competitors for Nationwide and the institutions against which it benchmarks itself.

Due to the losses sustained in the financial crisis as well as increased capital and liquidity requirements under the new Basel III and CRD IV regulatory regime, the larger UK banks have been forced to deleverage, rebuild capital and reduce their reliance on wholesale funding. As well as deleveraging, a number of incumbent banks have been through major cost-cutting exercises, have scaled back their branch network and are continuing to spend significant amounts on improving their IT and operational capability. Additionally, several incumbent banks, such as Lloyds and RBS, continue to streamline their businesses and refocus their operations both geographically and by product.

Two of the major UK banks (RBS and Lloyds) received significant Government support in the form of major capital injections and emergency funding during the financial crisis. In addition, a number of schemes, including the Credit Guarantee Scheme, the Special Liquidity Scheme, FLS and TFS, 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) 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 versus their peers who are not so involved and the future requirement to "ring-fence" their retail activities.

There is also increasing competition in the UK banking market, with a number of medium-sized banks such as Virgin Money, Clydesdale and TSB, banks, such as Metro Bank and Handelsbanken, which emphasise relationship banking and customer service with the branch at their core, specialised banks, such as OneSavings Bank and Shawbrook, which focus on a specific product range and/or customer segment that may be underserved by the large and medium-sized banks and building societies due to their specialised nature and need for bespoke underwriting processes.

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, Sainsbury's, Marks and Spencer and the Post Office) sell financial services to their customers, often through co-operation arrangements with existing banks and insurance companies. The UK financial services market also includes a number of non-bank finance companies such as short-term (or "pay-day") lenders, online specialists, peer-to-peer lending facilitators, crowd-funding providers and specialist mortgage lenders. These participants are active within the consumer and corporate lending markets and focus on niche areas where larger banks have typically chosen not to operate. 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 (including via mobile banking) 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.

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 2016, 2015 and 2014.

As at 31 December	Total balances	Building societies	Banks	Others	Society's share of total UK residential mortgages
	(*£ billions*)				
2016	1,322.6	21.5%	65.9%	12.5%	12.9%
2015	1,288.4	20.7%	65.6%	13.7%	12.4%
2014	1,255.9	20.0%	65.7%	14.3%	12.0%

Source: Bank of England research, except for information regarding the building society balances which are taken from Building Society Association data, and 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 £351 billion. For the year to 31 December 2016, the equivalent figure was approximately £245 billion, in each case according to BoE data. However, the nature of competition is essentially unchanged with competition for new lending business remaining fierce. The majority of this is for residential purposes; there has been a softening in the buy to let market following stamp duty and other taxation reforms and in response to changes in underwriting standards. 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 63 per cent. in 2016. The impact of the global financial crisis is still evident in the mortgage market, with fewer products available which permit high loan to value (**LTV**) ratios, although this has begun to change in recent years.

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 2016, 2015 and 2014. 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.*)		
2016	245.1	27.1%	65.1%	7.8%	14.3%
2015	221.8	25.7%	64.2%	10.1%	13.7%
2014	203.4	25.9%	65.0%	9.1%	13.3%

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.*)		
2016	39.0	54.1%	50.2%	-4.3%	27.2%
2015	35.5	45.7%	53.4%	0.9%	23.1%
2014	23.7	73.2%	26.2%	0.6%	31.0%

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

Note: Negative figures indicate net outflows during the year.

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), at lower rates rather than lenders' standard (or "backbook") interest rates. In the year to 31 December 2016, remortgaging totalled an estimated £66.3 billion, up 21 per cent. on the year to 31 December 2015 (source: UK Finance).

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 2016, 2015 and 2014.

As at 31 December	Total balances	Annual rate of growth	Building societies (including the Society)	Banks and other(1)	NS&I	Society's share of total UK retail savings
	(*£ billions*)			(*per cent.*)		
2016	1,427.9	6.1%	18.4%	71.6%	10.0%	10.1%
2015	1,346.1	5.2%	18.3%	71.7%	10.0%	10.2%
2014	1,279.4	4.4%	18.7%	72.6%	8.7%	10.5%

Note:

(1) Comprises the total less building societies and NS&I.

Source: Bank of England and Building Societies Association, 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 £1,428 billion as at 31 December 2016 with balances having grown by 6.1 per cent. over the level as at 31 December 2015 and by 5.2 per cent. over the level as at 31 December 2015, according to BoE data.

In the last few years, competition for UK retail deposits has increased as new participants, such as foreign banks, supermarkets, insurance and life assurance companies, National Savings and Investments (the Government-owned funding agency), challenger banks and direct online banking providers have entered the market by offering attractive rates of interest. These new entrants have caused the cost of attracting new retail deposits to increase for existing participants in the market and have impacted the flow of new retail deposits. Nationwide believes that increased consumer awareness driven by the press and increased competition has created potentially greater volatility of retail deposit balances both between different organisations and between different accounts within organisations. This, in turn, has resulted in a reduction in the differential between rates paid on existing and new balances as customers transfer to high rate accounts and organisations aim to retain existing balances.

PART XI – DESCRIPTION OF NATIONWIDE'S BUSINESS

1. OVERVIEW

The Society is the largest building society in the United Kingdom in terms of total assets, with £222 billion of assets as at 4 April 2017. It has approximately 700 branches and 15 million customers.

Nationwide's core business is providing personal financial services, including residential mortgage loans and unsecured lending; retail savings; general retail banking services; personal investment products; and insurance. In addition, Nationwide maintains an investment portfolio of debt securities for its own account.

Following a strategic review undertaken during the financial year ended 4 April 2017, Nationwide has refreshed and evolved its strategy around its core purpose, which is 'building society, nationwide'. Nationwide has defined the following five interconnected cornerstones which support its purpose and strategy:

- Built to last – being safe, secure, sustainable and dependable.
- Building PRIDE – shared values, shared culture, doing the right thing.
- Building legendary service – providing service that is heartfelt, easy, lifelong and personal.
- Building thriving membership – delivering real value for its members.
- Building a national treasure – leading by example and making a difference.

As at 4 April 2017, Nationwide held approximately 12.9 per cent. (according to BoE data) of total UK residential mortgage balances and approximately 10.1 per cent. (as calculated by Nationwide based on BoE data) of total UK retail savings balances. Nationwide is the UK's second largest provider of mortgages and the third largest provider of savings. Substantially all of Nationwide's activities are in the United Kingdom.

As a mutual organisation, Nationwide is managed for the benefit of its members, who are its current account, retail savings and residential mortgage customers (as well as the holders of its deferred shares, including the PIBS, additional tier 1 instruments and CCDS issued by the Society). Nationwide's main focus is serving its members' interests, while retaining sufficient profit to increase and further develop its business and meet regulatory requirements. Nationwide returns value to its members by offering typically higher interest rates on savings and lower interest rates on loans than those offered by its main competitors. As a result of returning value to its members, Nationwide earns lower pre-tax profits than its main competitors, which are typically banks or other non-mutual organisations.

Nationwide benchmarks its products and performance against a group of leading retail banks operating in the UK (Barclays, Halifax, HSBC, Lloyds, NatWest and Santander UK) 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 most 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. 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 "*Customer relationships*" below.

The Society aims to make sufficient profits to ensure safety and 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. Beyond this, any surplus generated can be returned to Nationwide's members through improved rates and loyalty rewards. Nationwide estimated the value returned to its members in the financial year ended 4 April 2017 at £505 million. Nationwide's 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 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.

2.2 Customer relationships

Nationwide's focus on delivering long-term value to its customers through competitive and transparent pricing and 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 engaged 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.

In each of the financial years ended 4 April 2017, 2016 and 2015, Nationwide achieved first position for customer satisfaction among its high street peer group with leads of 5.0 per cent., 7.7 per cent. and 4.5 per cent. respectively over its nearest competitor[1].

The Directors believe that Nationwide's customer relationships are a significant strength of its business.

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 140 per cent. of the combined size of the rest of the UK building society sector. Nationwide is the third largest savings provider and the second largest mortgage provider in the United Kingdom, with market shares of approximately 10.1 per cent. and approximately 12.9 per cent., respectively, as at 4 April 2017. It also has a growing base of current account customers, which Nationwide estimates accounts for approximately 7.5 per cent. of main standard and packaged current accounts in the United Kingdom. As at 4 April 2017, Nationwide had approximately 15 million customers which it served through approximately 700 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 retail products comprising mortgages, savings, general insurance, personal banking and financial planning products. The Directors believe that Nationwide's strong market positions in the savings and mortgage markets, and its large customer base, mean that it is well-placed to meet the demands of customers in response to changes in the external environment. Nationwide continues to attract significant volumes of new current accounts, with approximately 795,000 new accounts opened in the financial year ended 4 April 2017, approximately 590,000 new accounts opened in the financial year ended 4 April 2016 and approximately 469,000 new accounts opened in the financial year ended 4 April 2015, taking Nationwide's market share of main standard and packaged current accounts to 7.5 per cent. at February 2017.

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

Nationwide has capital and liquidity ratios in excess of regulatory requirements, a balance sheet underpinned by residential mortgage assets with a low risk profile (as demonstrated by a low level of arrears compared to the

[1] © GfK 2017, Financial Research Survey (FRS), 3 months ending 31 March 2017 vs 31 March 2016 vs 31 March 2015, proportion of extremely/very satisfied customers minus proportion of extremely/very/fairly dissatisfied customers summed across current account, mortgage and savings. High street peer group defined as providers with main current account market share >6% (Barclays, Halifax, HSBC, Lloyds Bank (inc C&G), NatWest and Santander). Prior to April 2015, Lloyds Bank and TSB combined as Lloyds TSB Group (including Lloyds Bank, TSB and C&G).

industry average), 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 remain strong.

Nationwide's CET1 capital ratio has increased over recent years. The CET1 capital ratio was 25.4 per cent. as at 4 April 2017, up from 23.2 per cent. as at 4 April 2016 and 19.8 per cent. as at 4 April 2015). The Society's UK leverage ratio was 4.4 per cent. as at 4 April 2017, unchanged from the previous year. For a discussion of the Society's capital and leverage position, see "*Part XVI: 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 its residential mortgage asset portfolio, with residential mortgages three months or more in arrears at 4 April 2017 equalling 0.45 per cent. of its total residential mortgage portfolio compared with the Council of Mortgage Lenders' industry average of 0.91 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 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 XII: 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 its "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 financial year ended 4 April 2017, Nationwide achieved an engagement score of 78 per cent. and an enablement score of 72 per cent. (in each case as measured by ViewPoint, Nationwide's annual employee survey). Both scores were in excess of or matched the financial services high performance benchmark (of 73 per cent. and 72 per cent., respectively) and met the Society's strategic goal of achieving the high performance benchmark in both categories. Nationwide's high performance culture is also reflected in the fact that every employee can benefit from a variable pay opportunity which is dependent on Nationwide achieving two financial and risk gateways (statutory profit and capital strength measured by its leverage ratio) and also performance against three measures (growth in the number of members holding its core products, customer satisfaction ratings and sustainable cost savings). 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 continue to compete effectively with its main bank competitors.

3. STRATEGY

Following a recently completed strategic review, Nationwide is embarking upon the next evolution of its strategy, centred around its core purpose of 'building society, nationwide'. Nationwide's refreshed strategy is founded upon a rigorous re-evaluation of its strengths and its assessment of the way in which the financial services industry has evolved in recent years. Nationwide engaged its members through live 'talkbacks', suggestion schemes and through its 5,000 strong online 'member connect' community. It also engaged its employees through the 'big conversation', an opportunity for all its people to share their views on how the Society is run.

Nationwide believes that its founding focus on mortgages and savings remains as relevant today as it was when Nationwide was founded in the 19th century. Additionally, Nationwide believes that increasing the size of its current account base remains a logical extension of its purpose by fulfilling its members' day to day financial needs and strengthening its mutual relationship. Nationwide intends to continue to offer a broad range of financial services that complement its core products of mortgage, savings and current accounts. Nationwide's core purpose is 'building society, nationwide' and it has defined the following five interconnected cornerstones which support its purpose and strategy. Nationwide's strategic targets and key performance indicators have also been reviewed and amended in line with its strategy refresh.

3.1 Built to last

Nationwide believes that its members want it to keep their money safe by being secure and dependable and that they want Nationwide to be built to last by:

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

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

Nationwide's financial performance will be supported by a renewed focus on efficiency. Nationwide intends to continue to put its members and their money first by making careful choices on how best to allocate its resources. Whilst cost income ratio was previously Nationwide's main measure of efficiency, Nationwide has as at 4 April 2017, set a target to deliver £300 million of sustainable cost savings by 2022. This is expected to be delivered across a range of initiatives, including 'right first time' member service, third party procurement reviews, process automation and digitised service delivery, as well as targeted restructuring activity.

3.2 Building PRIDE

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

- **P**utting its members and their money first.
- **R**ising to the challenge.
- **I**nspiring trust.
- **D**oing the right thing in the right way.
- **E**xcelling at relationships.

In connection with PRIDE, Nationwide aims to equip its people better by:

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

Nationwide is, and intends to remain, one of the UK's best places to work, in keeping with its mutual ethos of care, which is the backbone behind the service its members receive. Having engaged and enabled employees is a key source of competitive advantage as Nationwide strives to have industry leading levels of customer satisfaction and grow its business. Nationwide measures engagement and enablement through ViewPoint, conducted for the last eight years by global management consulting firm Korn Ferry Hay Group (formerly Hay Group).

3.3 Building legendary service

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

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

Delivering leading levels of member satisfaction is a key point of differentiation to Nationwide's peers and an important driver in helping to grow Nationwide's membership. Nationwide measures its service satisfaction performance using an independent survey conducted by market research experts, GfK. Its performance is currently benchmarked against a peer group of high street banks with a main current account market share greater than 6 per cent. Nationwide will continue to benchmark itself against this measure. However, Nationwide has expanded the peer group that it compares itself against to include high street banks with a main current account market share greater than 4 per cent., in order to recognise the increased competition Nationwide faces from challenger organisations, to ensure that Nationwide continues to focus on its members' satisfaction and to further support Nationwide in its core purpose: 'building society, nationwide'. Nationwide has recognised this change to its peer group in its targets for the financial year ended 4 April 2018, setting a strategic target of first position with a lead of 2 per cent.

3.4 Building thriving membership

Nationwide aims to help its members achieve their goals, whether home ownership or saving for the future. Nationwide intends to deliver real value to its membership by:

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

Growing Nationwide's base of engaged members allows it to bring the benefits of mutuality to a wider population. Nationwide measures its performance through its number of engaged members, defined as those who hold a mortgage or savings account with Nationwide (with a balance greater than £5,000) or who hold their main personal current account with Nationwide. As at 4 April 2017, Nationwide had 7.8 million engaged members, up from 7.4 million as at 4 April 2016 and 7.1 million as at 4 April 2015. Nationwide's strategic target is to reach 10 million engaged members by 2022.

3.5 Building a national treasure

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

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

Nationwide's brand is the sum of how its members and others perceive Nationwide. A strong brand, effective both in digital and traditional media, is essential to attract new members. Nationwide measures its performance against its peer group through an independent specialist market research agency survey of all consumers, in particular in relation to prompted brand consideration and trust. In the financial year ended 4 April 2017, Nationwide scored third among its peer group for prompted brand consideration (2.6 per cent. behind the leading peer group score) and first for trust (1.3 per cent. ahead of its nearest peer). For the financial year ending 4 April 2018, Nationwide's strategic targets are to lead in both categories, by 4 per cent. for prompted brand consideration and 3 per cent. for trust.

4. HISTORY AND DEVELOPMENT OF THE SOCIETY

Building societies have existed in the United Kingdom for over 200 years. From the outset, they were community-based, cooperative organisations created to help people purchase homes. The main characteristic of building societies is their mutual status, meaning that they are owned by their members, who are primarily current account, retail savings and residential mortgage customers. Nationwide's origins date back to the Southern Co-operative Permanent Building Society (1884). Over time, this entity merged with similar organisations to create Nationwide Building Society.

Over the past 30 years, many building societies have merged with other building societies or, in some cases, transferred their businesses to the subsidiary of another mutual organisation or demutualised and transferred their businesses to existing or specially formed banks. As a result, the number of building societies in the United Kingdom has fallen dramatically over the same period. One consequence of this decrease is that the majority of Nationwide's competitors are banks. Nationwide 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 UK member 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 Nationwide'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. It merged with Portman Building Society in August 2007 and with Cheshire Building Society and Derbyshire Building Society in December 2008. In March and June 2009, Nationwide also acquired selected assets and liabilities of Dunfermline Building Society. Nationwide believes these developments have added value, improved its distribution footprint, helped to grow the membership and are a testament to Nationwide's strength and its ability to provide support to other building societies.

During the financial year ended 4 April 2017, and in line with its core purpose of 'building society, nationwide', the Society decided to exit its offshore deposit taking business in the Isle of Man and also announced the closure of its Republic of Ireland branch operations. In addition, the Society has ceased to advance new commercial loans as it has determined that the commercial lending business is no longer a good fit with Nationwide's core purpose.

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 4 April 2017 are set out below:

100 per cent. held subsidiary undertakings	Nature of business
Nationwide Syndications Limited	Syndicated lending
The Mortgage Works (UK) plc	Centralised mortgage lender
Derbyshire Home Loans Limited	Centralised mortgage lender
E-Mex Home Funding Limited	Centralised mortgage lender
UCB Home Loans Corporation Limited	Centralised mortgage lender

All the above subsidiary undertakings are limited liability companies which are registered in England and Wales and operate in the UK and, with the exception of Nationwide Syndications Limited, they are all regulated entities.

Nationwide Syndications Limited is a wholly owned mortgage lender specialising in syndicated commercial loans to registered social landlords. Nationwide Syndications Limited has ceased to offer new lending. As at 4 April 2017, it held mortgage assets of £0.5 billion.

The Mortgage Works (UK) plc (**TMW**) is a wholly owned centralised mortgage lending subsidiary, specialising mainly in residential buy to let lending to individuals. As at 4 April 2017, it had mortgage assets of £29.4 billion. In the financial year ended 4 April 2017, TMW's gross lending was £4.6 billion, representing 14 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 also has interests in structured entities. A structured entity is an entity in which voting or similar rights are not the dominant factor in deciding control. Structured entities are consolidated when the substance of the relationship indicates control.

The table below provides details of these entities as at 4 April 2017.

Group undertaking	Nature of business	Country of registration	Country of operation
Nationwide Covered Bonds LLP	Mortgage acquisition and guarantor of covered bonds	England and Wales	UK
Silverstone Master Issuer plc	Funding vehicle	England and Wales	UK
Silverstone Funding No. 1 Limited	Funding vehicle	England and Wales	UK
Cromarty CLO Limited	Investment in a portfolio of	Republic of Ireland	Republic of Ireland

European loans

6. BUSINESS STREAMS

6.1 Introduction

Nationwide has three business streams as follows:

- **Retail** – which includes prime residential lending, specialist residential lending, consumer banking, savings, commercial deposits which are managed by the retail business, insurance and investments.

- **Commercial** – which comprises Nationwide's commercial lending business.

- **Head Office Functions** – which comprises Treasury operational activities, head office and central support functions, commercial deposits received and managed by the Treasury function and the result arising from the funds transfer pricing methodology relating to the funding of the other two segments. Head office and central support functions include executive management, legal and secretariat services, human resources, strategic planning and external relations, finance, risk management, property services and internal audit.

The following table sets out summary information relating to Nationwide's business streams for the financial year ended and as at 4 April 2017.

	Retail	**Commercial**	**Head Office Functions**	**Total**
		(*£ millions*)		
Net interest income	2,895	102	(37)	2,960
Total revenue	3,230	114	(59)	3,285
Underlying profit/(loss) before tax	1,134	72	(176)	1,030
Total assets(1)	174,811	12,555	34,304	221,670
Total liabilities	146,918	3,055	60,564	210,537

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

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 investments and general insurance solutions, both directly and through intermediary sales channels.

Residential mortgage lending

The vast majority of Nationwide's lending portfolio consists of UK residential mortgage loans to individuals. These loans are secured on the residential property of the borrower on terms which allow for repossession and sale of the property if the borrower breaks the terms and conditions of the loan. This lending can take the form of either prime residential lending (where the borrower is the owner and occupier of the mortgaged property and meets 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's policy is for all residential mortgage loans to individuals to be fully secured first priority loans on the mortgaged property, to ensure that Nationwide's 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 to individuals carries lower risk than many other types of lending.

As at 4 April 2017, Nationwide was the second largest mortgage lender in the United Kingdom (as measured by total loans outstanding and calculated by Nationwide based on BoE data and publicly available financial information). As at 4 April 2017, Nationwide's total gross prime and specialist residential mortgage lending amounted to £171.3 billion, of which prime residential lending accounted for 80.6 per cent. Nationwide's residential mortgages are generally for terms of 20 to 30 years. While many customers remain with Nationwide for much or all of this term, some customers redeem their mortgage earlier than this in order to remortgage to another lender or for other reasons. The minimum life of a mortgage is usually between two and five years, depending on the terms of the customer's initial product, although Nationwide generally retains approximately 70 to 80 per cent. of customers when they reach the end of a product.

As at 4 April 2017, Nationwide's outstanding prime and specialist residential lending was £138 billion and £33 billion, respectively. The table below shows a breakdown of Nationwide's prime and specialist residential mortgage lending outstanding balances as at 4 April 2017.

	As at 4 April 2017
	(*£ billions*)
Prime	138.0
Specialist	33.3
of which:	(*per cent. of specialist*)
Buy to let	91
Self-certified	6
Near prime	2
Sub prime	1

Source: Nationwide's Annual Report and Accounts 2017

Nationwide offers specialist UK residential mortgage lending to individuals, which comprises lending to private landlords (buy-to-let) and other non-conforming lending. As at 4 April 2017, Nationwide's outstanding specialist UK residential mortgage lending to individuals was £33.3 billion. The specialist residential mortgage balance is made up of advances made through Nationwide's specialist lending brands, TMW and UCB, and from the acquisitions of the Cheshire, Derbyshire and Dunfermline building societies portfolios. Nationwide's outstanding specialist lending loans were advanced primarily in the buy-to-let and self-certification markets. New specialist lending is restricted to buy-to-let through TMW with Nationwide having withdrawn from the self-certified lending market in 2009.

Nationwide's specialist mortgages continue to perform well with cases three months or more in arrears representing only 0.89 per cent. of the total mortgage book as at 4 April 2017, which compares favourably to the overall CML industry measure, that is inclusive of prime lending, of 0.91 per cent. as at 4 April 2017.

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

The table below shows the geographical distribution of Nationwide's UK residential mortgage loans as at 4 April 2017.

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

Source: Nationwide's Annual Report and Accounts 2017

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

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

Nationwide is committed to supporting the housing market, and first time buyers in particular. Nationwide's gross and net market shares of the UK residential mortgage market as at 4 April 2017 were 14.0 per cent. and 25.4 per cent., respectively, compared with gross and net market shares 13.7 per cent. and 21.4 per cent., respectively for the year ended 4 April 2016.

The LTV profile of Nationwide's new lending, weighted by value, increased to 71 per cent. as at 4 April 2017 from 69 per cent. as at 4 April 2016. The indexed LTV for the whole residential portfolio remained at 55 per cent. as at each of 4 April 2017 and 4 April 2016 on a value basis.

The Directors believe that Nationwide's asset quality has remained strong as a result of its continued prudent approach to lending. The proportion of Nationwide's mortgage accounts three months or more in arrears has remained stable at 0.45 per cent. as at 4 April 2017, which compares favourably with the CML industry average of 0.91 per cent. as at the same date.

The table below shows Nationwide's residential mortgage loans which are three months or more in arrears as a percentage of its total residential mortgage loans as at each of 4 April 2017, 4 April 2016 and 4 April 2015 and the UK industry averages published by the CML.

	As at 4 April		
	2017	2016	2015
		(*per cent.*)	
Prime	0.36	0.35	0.36
Specialist	0.89	0.90	1.12
Group	**0.45**	**0.45**	**0.49**
CML industry average	0.91	1.04	1.30

Source: Nationwide's Annual Report and Accounts 2017 and 2016

Nationwide utilises an automated credit scoring system to assist in minimising credit risk on residential mortgage lending. Its credit procedures for residential mortgage lending take into account the applicant's credit history, loan-to-value criteria, income multiples and an affordability calculation, or shock test, that tests the applicant's ability to service the loan at higher interest rates. For additional information regarding how Nationwide manages credit risk in connection with new lending, see "*Lending Risk*" in "*Part XVIII: Risk Management*."

Nationwide focuses its residential mortgage sales efforts on first-time buyers, subsequent purchasers moving home and the remortgage market. Nationwide is particularly keen to support its existing members and has introduced products to support first-time buyers. First-time buyers offer a significant potential for additional sources of income through the distribution of insurance and personal investment products. The proportion of new lending to first time buyers increased to 36 per cent. during the financial year ended 4 April 2017 with 64 per cent. to experienced buyers (compared to 28 per cent. of residential mortgage advances to first-time buyers and 72 per cent. to experienced buyers in the financial year ended 4 April 2016).

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

Consumer lending

Nationwide engages in personal lending, which accounted for 1 per cent. of its total loan assets as at 4 April 2017. Almost all of Nationwide's consumer loans are made on an unsecured basis.

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

There is a greater risk of loss on unsecured consumer lending than there is on residential mortgage lending because 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. To manage this risk, Nationwide uses an automated credit scoring system that is designed to evaluate a borrower's ability to repay the loan. In addition, Nationwide assesses all unsecured consumer loans to ensure they remain affordable alongside any mortgage.

Savings

The great majority of Nationwide's retail savings are in the form of UK retail member deposits. In addition, Nationwide has historically accepted offshore deposits and deposits which do not convey member status. As at 4 April 2017 Nationwide had UK retail member deposits of £144.5 billion. UK retail member deposits represented 65.2 per cent. of Nationwide's total liabilities and reserves as at 4 April 2017.

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

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

The UK retail savings market is highly competitive among building societies and banks, including those banks owned by insurance companies and retailers. This competition has increased the relative cost of retail funds, especially new retail funds.

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

Personal banking

Nationwide has a growing base of current account customers, which Nationwide estimates accounts for approximately 7.5 per cent. of main standard and packaged current accounts in the United Kingdom. A record 795,000 Nationwide current accounts were opened over the financial year to 4 April 2017, an increase of 35 per cent. over the previous financial year. This included 147,000 new youth accounts. A further 169,000 people chose FlexPlus, Nationwide's award-winning account. Nationwide supports financial inclusion by providing customers access to a full banking service with its FlexBasic account. It also continues to benefit from high switching rates through the Current Account Switch Service, with some 165,000 current account holders switching to Nationwide in the financial year ended 4 April 2017, an 18 per cent. share of the total personal switcher market according to Independent Research Agency, eBenchmarkers, CACI, BACS Payments Schemes monthly CASS switching market data and internal sources. Nationwide is also Which? 'Banking Brand of the Year 2017'.

Nationwide began issuing Nationwide-branded Visa credit cards to its customers in 1997. It 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.

Credit card lending had overall balances of £1.7 billion at 4 April 2017.

Other retail services

Nationwide's other retail services principally comprise its insurance business and its investment business.

Insurance

In conjunction with its core business of providing residential mortgage loans and retail savings, Nationwide develops and markets insurance products branded with its name that are underwritten by third-party insurers. Nationwide sold its subsidiary, Nationwide Life Limited, to Legal & General on 31 January 2008 and, as a result, it no longer underwrites its own life assurance products. As part of the sale agreement, Nationwide distributes the insurance products of Legal & General.

The insurance products that Nationwide markets are:

- buildings and contents insurance, which Nationwide markets to its residential mortgage customers and non-mortgage customers;
- landlord insurance;
- term income protection insurance, replacing up to 60 per cent. of gross income in case of unemployment; and
- personal accident insurance.

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

Investments

Nationwide's income from the distribution of protection and investments was £78 million for the financial year ended 4 April 2017.

Distribution network

Nationwide's integrated and diversified distribution network allows its customers to choose how and when to undertake their transactions with Nationwide and has enabled Nationwide 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 by the internet, telephone and mail.

Nationwide distributes its products primarily through:

- branches;
- call centres;
- mail;
- internet and mobile banking; and
- intermediaries.

Nationwide also maintains a network of ATMs.

Branches

Nationwide's branch network continues to be a major source of its mortgage lending and retail funding. As at 4 April 2017, Nationwide had approximately 700 branches of Nationwide Building Society in the United Kingdom, the Republic of Ireland and the Isle of Man, although Nationwide has recently announced the closure of its Republic of Ireland and Isle of Man operations.

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

Call centres

Nationwide's telephone call centres are open 24 hours a day 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.

Mail

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

Internet and mobile banking

Nationwide first launched an internet banking service in 1997 and has continued to update the service in line with technological advances and increasing customer expectations. Nationwide's website allows customers to transact on their accounts and apply for a broad range of Nationwide products online. Nationwide also allows customers to access and carry out transactions on their accounts using its mobile phone application.

Intermediaries

A substantial amount of Nationwide's mortgage sales are introduced to it by third-party intermediaries. Intermediaries range from large UK insurance companies to small independent mortgage advisers. Nationwide remunerates intermediaries for introducing mortgage business.

ATMs

Nationwide's customers have access to Nationwide ATMs as well as access to ATMs in the United Kingdom through the LINK network and world-wide through the Visa network.

6.3 Commercial business stream

Nationwide's commercial business stream manages three commercial secured lending portfolios, which as at 4 April 2017 accounted for 7 per cent. of total loans and advances to customers. Following a strategic review of the commercial lending business, Nationwide concluded that the business is no longer a good fit with its core purpose. The strategy for commercial lending is now to hold and actively manage the portfolios to maturity in line with contractual terms.

The table below shows the amount and types of loans in the commercial lending portfolio as at 4 April 2017.

	As at 4 April 2017	
	(*£ billions*)	(*percentage of total commercial loans*)
Commercial real estate	2.6	23
Registered social landlords	7.5	67
Private finance initiative	1.1	10
Total	**11.2**	**100**

Nationwide's registered social landlord (**RSL**) loans are made to UK registered social landlords, are secured on residential property and differ significantly from other loans secured on real property. UK registered social landlords provide affordable housing supported by Government grants. This portfolio historically has carried a lower risk than Nationwide's other commercial lending activities, and there are currently no arrears of three months or more in the RSL portfolio. To date, Nationwide has not needed to raise any loss provisions against this portfolio.

Nationwide's private finance initiative (**PFI**) loans are secured on cash flows from Government-backed contracts such as schools, hospitals and roads under the UK private finance initiative legislation. Nationwide has not suffered any losses on this lending and there are currently no arrears of three months or more.

Nationwide's commercial real estate (**CRE**) portfolio is well diversified by industry type and by borrower, with no significant exposure to development finance.

For further information on the performance of the commercial business stream in each of the three financial years ended 4 April 2017, see paragraph 8 (*Segmental Analysis*) of "*Part XV: Operating and Financial Review*" and for further information on Nationwide's lending and loan portfolios, see paragraph 5 (*Lending and loan portfolios*) in "*Part XVII: 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 executive management, legal and secretariat services, human resources, strategic planning and external relations, finance, risk management, 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 9.3 (*Liquidity*) of "*Part XV: Operating and Financial Review*", "*Part XVIII: Risk Management*" and paragraph 9.7 (*Wholesale funding*) of "*Part XV: Operating and Financial Review*", respectively.

7. INVESTMENTS

Nationwide's principal investments are targeted at three distinct areas: meeting regulatory and mandatory requirements; ensuring that technology and property infrastructure is resilient and secure and strategic investment. To this end, the Society invested £592 million during 2015/16, rising to £622 million in 2016/17. This was fully funded from internal cash resources and a comparable amount is intended to be invested in the current financial year.

The key drivers for recent strategic activity are to ensure that the customer product offerings remain relevant and efficient across all distribution channels with a particular focus on digital technologies. Significant investment has been made on Nationwide's mobile and tablet applications and the underlying infrastructure to support these as well as enabling real time online opening of savings products. Looking forward, there is a commitment to the roll out of an innovative new branch design, the digitisation and simplification of customer journeys across Nationwide's main product lines of banking, savings and mortgages and investment in data and analytics. Nationwide is also developing its response to Open Banking regulation and the opportunities this creates.

8. FSCS

Like other UK financial institutions, the Society pays levies based on its share of protected deposits to the FSCS to enable the FSCS to meet claims against it. In 2008 a number of institutions were declared in default by the Financial Services Authority (now the FCA). The FSCS has met the claims by way of loans received from HM Treasury. These loans totalled approximately £20 billion. The terms of these loans were initially interest only for the first three years, and the FSCS recovers the interest cost, together with ongoing management expenses, by way of annual levies on member firms over this period.

While it was anticipated that the majority of the borrowings would be repaid wholly from recoveries from the institutions concerned, the industry was levied in respect of the anticipated shortfall in repaying these loans in an amount of £753 million (reduced, through refunds, to £653 million in August 2017). The process of repaying the remaining loan balance of £15.6 billion relating to the failure of Bradford and Bingley plc has now commenced with the sale by UK Asset Resolution (**UKAR**) of a portfolio of Bradford and Bingley assets on 25 April 2017, reducing the outstanding borrowings on which the FSCS member firms are paying interest costs to £5 billion. As a result, the annual FSCS charge in relation to interest costs and management expenses has reduced significantly to £15 million (2016: £46 million) for the 2017/18 scheme year. A second Bradford and Bingley asset sale transaction is currently anticipated to be completed by March 2018.

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

9. BANK LEVY

Bank levy requirements were introduced in the UK in July 2011. The levy applies to UK banking groups, building societies and the operations of non-UK banks in the UK and is based on the chargeable equity and liabilities at the balance sheet date. An allowance is given against the first £20 billion of chargeable equity and liabilities, meaning that smaller institutions are effectively exempted from the levy. Non-chargeable liabilities include Tier 1 capital, insured retail deposits, repos secured on sovereign debt, retirement benefit obligations and tax liabilities. Additionally, certain high quality liquid assets on the balance sheet are eligible to reduce the amount of liabilities subject to the levy. From 1 January 2016, the Government has been implementing a gradual reduction in bank levy rates combined with the introduction of a corporation tax surcharge (at 8 per cent.) on banking companies and building societies within the charge to corporation tax.

PART XII – 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 Officer, the Chief Financial Officer, the Chief Relationships and Distribution Officer and the Chief Products and Propositions Officer. All other Directors are Non-Executive Directors. The business address of all of the Directors and officers is Nationwide House, Pipers Way, Swindon SN38 1NW, England.

Under the Society's rules, the Board 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.

Save as disclosed in the table below, which shows that certain Directors are also directors of subsidiaries of the Society, there are no potential conflicts of interest between any duties to the Society, as issuer, of the Directors and their private interests or other duties. The Society's governance rules require any conflicts of interest to be disclosed and no Director may vote on a proposal in relation to which he has a conflict.

DIRECTORS

The following table presents information with respect to current Directors:

Name	Age	Position	Other Directorships
David Roberts	54	Chairman	Campion Willcocks Limited Dr Challoner's Grammar School (Governor) NHS England
Joe Garner	48	Chief Executive Officer	British Triathlon Foundation Trust Newta Limited
Mark Rennison	57	Chief Financial Officer	Arkose Funding Limited Confederation Mortgage Services Limited Exeter Trust Limited First Nationwide LBS Mortgages Limited Nationwide Anglia Property Services Limited Nationwide Housing Trust Limited Nationwide Investments (No.1) Limited Nationwide Lease Finance Limited Nationwide Mortgage Corporation Limited Nationwide Syndications Limited NBS Fleet Services Limited Piper Javelin Holding Company Limited Piper Javelin No 1 Limited Staffordshire Leasing Limited
Chris Rhodes	54	Chief Products and Propositions Officer	At.Home Nationwide Limited Derbyshire Home Loans Limited E-Mex Home Funding Limited Jubilee Mortgages Limited National Numeracy (Trustee) The Lending Standards Board Limited The Mortgage Works (UK) plc UCB Home Loans Corporation Limited
Tony Prestedge	47	Chief Relationships and Distribution Officer	Dunfermline BS Nominees Limited Nationwide Anglia Property Services Limited Monument (Sutton) Limited

Name	Age	Position	Other Directorships
			The Derbyshire (Premises) Limited The Nationwide Foundation
Rita Clifton	59	Non-executive Director	Ascential plc Asos plc BrandCap Limited Populus Group Limited Populus Limited Rita Clifton Ltd
Mitchel Lenson	62	Non-executive Director	Eclipse Film Partners No.39 LLP (Designated Member) The Currency Cloud Group Limited The Invicta Film Partnership No.37 LLP (Designated Member)
Lynne Peacock	63	Senior Independent Director and Non-executive Director	Aberdeen Asset Management PLC Elevate Portfolio Services Limited Hawkins Residents Limited Scottish Water Business Stream Holdings Limited Scottish Water Horizons Holdings Limited Serco Group plc Standard Life Aberdeen plc Standard Life Assurance Limited Standard Life Savings Limited Standard Life Investments Holdings Limited The Westminster Society for People with Learning Disabilities
Mai Fyfield	48	Non-executive Director	None
Tim Tookey	55	Non-executive Director	Old Mutual Wealth Management Limited Westmoreland Court Management (Beckenham) Limited
Kevin Parry	55	Non-executive Director	Aberdeen Asset Management PLC Daily Mail and General Trust plc Intermediate Capital Group plc KAH Parry Limited Royal National Children's Foundation Standard Life Aberdeen plc Standard Life Investments Holdings Limited
Baroness Usha Prashar	69	Non-executive Director	British Council (Trustee) Philharmonia Trust Limited UK Community Foundations (Honorary President)
Gunn Waersted	62	Non-executive Director	Lukris Invest AS Petoro AS Telenor ASA

David Roberts

Group Chairman and Non-executive Director

David Roberts joined Nationwide on 1 September 2014 and took over as Chairman in July 2015. David combines extensive financial services expertise at major listed companies and member-led firms with broad experience of leading, shaping and developing boards.

David was formerly Group Deputy Chairman of Lloyds Banking Group and Chairman of the Board Risk Committee. He was also previously an Executive Director at Barclays Bank, where he was Chief Executive of International Retail and Commercial Banking, and a member of the Group Executive Committee. David was also Chairman and Chief Executive of Bawag PSK AG, Austria's second largest retail bank, and is former non-executive director of BAA plc and Absa Group SA. He is currently Vice Chairman of NHS England.

As Chairman of the Board since July 2015, David also chairs the Nomination and Governance Committee and is a member of the Remuneration Committee and the IT Strategy and Resilience Committee.

Joe Garner

Chief Executive Officer

Joe Garner joined Nationwide as CEO in April 2016, inspired by the Society's principle of mutuality and service ethos.

Consumer-focused organisations have been at the heart of Joe's working life. He spent his early career with consumer products companies, Procter & Gamble and Dixons Carphone. He was then invited to lead larger organisations, first as Head of HSBC's UK retail and commercial businesses from 2010 to 2012. Then, in 2014 he became CEO at Openreach, the UK's digital infrastructure provider. Joe was also Chair of the Financial Services Authority Practitioner Panel from 2011 to 2013, and a non executive director of the Financial Ombudsman Service from 2007 to 2010.

Mark Rennison

Executive Director and Chief Financial Officer

Mark Rennison is a chartered accountant, with 30 years' experience in finance and across financial services. He joined the Society and was appointed to the Board in February 2007. His role is to manage the financial risks faced by the Society.

With responsibility for Finance and Efficiency, including Treasury and Supply Chain Management, Mark leads Nationwide's work to maintain its financial strength so that the Society can continue to invest in sustainable growth and member services. He also drives Nationwide's financial efficiency, ensuring an unwavering focus on the fact that every pound the Society spends is its members' money.

Mark is a former partner at PricewaterhouseCoopers LLP, where he worked in the financial services practice, focusing on retail and corporate banking. He also worked extensively with treasury operations, leasing and asset finance businesses.

Mark is a member of the Bank of England's PRA Practitioner Panel.

Chris Rhodes

Executive Director and Chief Products and Propositions Officer

Chris Rhodes has worked in financial services for 29 years, with leadership positions in finance, retail distribution, credit risk and product design. He joined Nationwide and the Board in 2009 and is responsible for defining member propositions for the Society's 15 million customers.

Chris was previously Director of Retail Distribution for Alliance and Leicester, part of Abbey Santander. His senior positions at Alliance and Leicester also included Retail Operations Director, Group Finance Director, and Deputy Managing Director of Girobank.

Tony Prestedge

Executive Director and Chief Relationships and Distribution Officer

Tony Prestedge joined the Society and the Board in August 2007. Tony has held senior positions for a number of organisations across strategy, operations, transformation and technology. He now leads Nationwide across all points of customer contact, including digital, in an era when technology is changing the shape of financial services and customer expectations. He is as passionate about Nationwide and its commitment to mutuality and service excellence today as the day he started.

Before Nationwide, Tony was a part of the leadership team for Barclays Retail Bank and an Executive Committee member for both UK Personal Banking and Woolwich Plc. His roles at Barclays also included Retail Support and Operations Director and Managing Director of the Home Finance business unit, experience that drew Tony to Nationwide.

Rita Clifton

Non-executive Director

Rita Clifton joined the Board in 2012. Rita is an acclaimed brand expert and uses her deep consumer insight to ensure members' needs are central to Board discussions.

Throughout a 20-year career in senior management at Interbrand UK Limited and Saatchi & Saatchi, among others, Rita has advised some of the UK's best known organisations, including British Airways, Barclays, BT, Citigroup, Visa and the British Army. She has demonstrated how brand is integral to long term business strategy and the value of analysing and understanding consumer perceptions and behaviour.

Rita is a member of both the Audit Committee and the Remuneration Committee.

Mitchel Lenson

Non-executive Director

Mitchel Lenson joined the Board in July 2011. Mitchel brings an extensive and formidable, international background in IT, operations and major programme and change management to Nationwide's Board.

He has spent over 30 years in the financial services industry, at JP Morgan, UBS Warburg, Credit Suisse First Boston, and as Group Chief Information Officer at Deutsche Bank. Mitchel is also a non-executive director of Currency Cloud, a payments platform.

Mitchel chairs the IT Strategy and Resilience Committee and is a member of the Board Risk Committee

Lynne Peacock

Senior Independent Director and Non-executive Director

Lynne Peacock joined the Board in July 2011. Lynne has a deep background in financial services and brings an extensive understanding of the challenges and opportunities of mutuality to the Board. She was formerly CEO of National Australia Bank's UK business and Chief Executive of Woolwich plc, having previously held senior management and board positions at the Woolwich Building Society.

Her current work as a non executive director of Scottish Water, Serco Group plc and Standard Life Aberdeen plc, and as a Trustee of the Westminster Society for People with Learning Disabilities, brings extra perspective to Nationwide.

Lynne is Nationwide's Senior Independent Director. She also chairs the Remuneration Committee and is a member of the Nomination and Governance Committee, the Audit Committee and the Board Risk Committee.

Mai Fyfield

Non-executive Director

Mai Fyfield joined the Board in June 2015. Mai combines her background as an economist with considerable commercial experience to help guide the Board's strategic thinking and consideration of emerging opportunities.

Mai maintains a full-time role as Chief Strategy and Commercial Officer at Sky, where she leads strategy and commercial partnerships across the Sky Group. Before reaching the top of a sector focused on customer experience and service delivery, Mai was an economic advisor to a number of major blue-chip companies.

Mai is a member of the IT Strategy and Resilience Committee.

Tim Tookey

Non-executive Director

Tim Tookey joined the Board in June 2015. Tim is a chartered accountant and brings enormous financial understanding and risk expertise to the Board.

He has spent over 30 years in finance, including as Chief Financial Officer at Friends Life Group Ltd, and Group Finance Director of Lloyds Banking Group.

Tim joined Old Mutual Wealth as a non-executive director in February 2017, and was appointed Chief Financial Officer of Old Mutual Wealth in May 2017.

Tim chairs the Board Risk Committee and is a member of the Nomination and Governance Committee and the Audit Committee.

Kevin Parry

Non-executive Director

Kevin Parry joined the Board in May 2016. Kevin is a distinguished director bringing extensive commercial, regulatory and auditing experience notably in international financial services and professional practice. He is currently Chairman of Intermediate Capital Group plc, and Senior Independent Director of Standard Life Aberdeen plc. Kevin is also a non executive director and Chairman of the Audit and Risk Committee of Daily Mail and General Trust plc.

He is a former KPMG managing partner and was Chief Financial Officer at Schroders plc. He is chairman of Royal National Children's Foundation, a charity supporting children with difficult home circumstances.

Kevin is chairman of the Audit Committee, and a member of both the Board Risk Committee and the Nomination and Governance Committee.

Baroness Usha Prashar

Non-executive Director

Baroness Usha Prashar joined the Board in January 2017. Usha has operated at the highest levels of public service, and brings a wealth of policy expertise and insight to inform Nationwide's social purpose and regulatory perspectives. An active member of the House of Lords, Usha is a Member of the European Union Select Committee and Chairman of the European Union Home Affairs Sub-Committee.

Usha has held non executive director positions at ITV, the Cabinet Office, Unite PLC, Channel 4, Energy Saving Trust and Ealing, Hounslow and Hammersmith Health Authority. She has also occupied senior posts at the National Literacy Trust, Royal Commonwealth Society and the Judicial Appointments Commission.

Usha is a member of the Remuneration Committee.

Gunn Waersted

Non-executive Director

Gunn Waersted joined the Board in June 2017. Gunn is currently Chairman of Norwegian telecommunications firm Telenor. She is also Chairman of Petoro, a firm owned by the Norwegian government and responsible for managing Norway's oil and gas portfolio.

Throughout her career, Gunn has held senior positions within a range of large financial institutions, including DNB ASA, SpareBank 1 Gruppen AS and, most recently, Nordea Bank AB (publ), where she was a member of the Group executive management team, chief executive officer of the Wealth Management division and country manager for Norway.

Gunn is a member of the IT Strategy & Resilience Committee.

Directors' compensation

For the financial year ended 4 April 2017 the aggregate amount of compensation that the Society paid to all directors and executive officers as a group totalled £8.6 million.

The Directors Performance Award was the only performance pay plan in which executive directors participated during 2016/17. This rewards individual performance and the attainment of challenging strategic and financial metrics. The maximum award is 152 per cent. of base salary for the Chief Executive Officer and 112 per cent. of base salary for the other executive directors. A risk gateway must be passed before any payment is made under the plan. In addition, if performance falls below the minimum acceptable performance against the metrics, then no bonus will be paid.

As part of variable remuneration, Executive Directors are entitled to receive deferred bonuses the amount of which is in part linked to the market price of CCDS.

In addition Executive Directors receive other benefits including a car allowance, access to shared drivers where required, healthcare and insurance benefits.

For further details of Director's compensation, see paragraph 7 (*Directors' Service Agreements, Benefits and Remuneration*) of "*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 base salary in accordance with their pre-existing terms of employment.

M.M. Rennison has opted out of the Nationwide Pension Fund (a defined benefit plan). He receives a cash allowance in lieu of future pension scheme accrual and is a deferred member of the Nationwide Pension Fund.

J.D. Garner, T.P. Prestedge and C.S. Rhodes have opted out of the Nationwide Group Personal Pension Arrangement. They each receive a monthly cash allowance 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 2017 Consolidated Financial Statements 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 financial years ended 4 April 2017, 4 April 2016 and 4 April 2015.

	Nationwide			Society		
	2017	**2016**	**2015**	**2017**	**2016**	**2015**

Full time	14,746	14,190	13,667	14,671	14,116	13,602
Part time	4,015	3,919	3,955	4,002	3,905	3,946
Total	**18,761**	**18,109**	**17,622**	**18,673**	**18,021**	**17,548**
Central administration	11,154	10,392	9,544	11,154	10,392	9,544
Branches	7,519	7,629	8,004	7,519	7,629	8,004
Subsidiaries	88	88	74	—	—	—
Total	**18,761**	**18,109**	**17,622**	**18,673**	**18,021**	**17,548**

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 2017 and will continue to do so. 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 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 and setting Nationwide's values and standards • Approval of Nationwide's long-term objectives and commercial strategy • Approval of Nationwide's annual operating and expenditure budgets • Oversight of Nationwide's operations • Review of performance in light of Nationwide's strategy, objectives, business plans and budgets • Any extension of Nationwide's activities into new businesses or geographic areas • Any decision to cease to operate all or any part of Nationwide's business which would have a major impact on the Group
Structure, capital and funding	• Changes relating to Nationwide's capital structure, including all issues and redemptions of CCDS and most other capital raising and redemption activities • Major changes to Nationwide's corporate structure • Significant acquisitions and disposals of assets • Changes to Nationwide's management and control structure • Any change to the Society's mutual status

Area of responsibility	Example matters reserved for the Board
	• 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 • Approval of distribution policy for, and declaration of, periodic investment returns on CCDS • Approval of the Annual Report and Accounts, including the corporate governance statement and remuneration report
Internal controls and risk management	• Ensuring maintenance of a sound system of internal control and risk management including receiving the annual report of the whistleblowing officer • Approval of Nationwide's risk appetite • The Board Risk Committee will advise the Board on risk matters and highlight significant risks
Projects and contracts	Approval of significant projects, contracts and leases
Lending	Approval of: • lending, borrowing and loan acquisition proposals in excess of the Executive Risk Committee's mandate or outside the Society's normal business • Treasury counterparty exposures in excess of the Executive Risk Committee's mandate
Communication	• Approval of resolutions and corresponding documentation to be put forward to members at a general meeting • Approval of all circulars, prospectuses and listing particulars which require approval by the Board
Board membership and other senior management issues	• Changes to the structure, size and composition of the Board • Ensuring adequate succession planning for the Board and senior management • Appointments to the Board and the continuation in office of Directors • 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 and other senior executives • The introduction of new incentive plans for executive directors or significant changes to existing plans

Area of responsibility	Example matters reserved for the Board
Delegation of authority	• The division of responsibilities between the chairman and the chief executive • Approval of terms of reference of Board committees • Approval of Additional Job Information statement for each of the Chief Executive Officer, Chairman, Senior Independent Director, Board Committee Chairmen and Non-Executive Directors • Receiving minutes and/or reports from the Board committees and the Chief Executive Officer on their activities
Corporate governance matters	• Undertaking a formal and rigorous review annually of its own performance, that of its committees and individual Directors • Determining the independence of Directors • Considering the balance of interests between members, other customers, employees and the community • Review of Nationwide's overall corporate governance arrangements • Receiving reports on the views of the Society members • Agreeing the Directors' Conflict of Interest Policy and all other relevant policies

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*** – provides oversight of, amongst other things, financial reporting, internal and external audit, compliance oversight, risk management systems and internal controls over financial reporting.

- ***The Remuneration Committee*** – has been delegated authority by the Board to determine the framework for remuneration of the Chairman, the directors and other senior executives of the Society. The Remuneration Committee reviews, evaluates and makes recommendations to the Board regarding executive compensation standards and practices, including base salaries, bonus distributions, pension fund contributions and the medium-term incentive scheme.

- ***The Board Risk Committee*** – provides oversight and advice to the Board in relation to current and potential future risk exposures and future risk strategy, including determination of risk appetite. In addition, the Board Risk Committee is responsible for monitoring the Enterprise Risk Management Framework (the **ERMF**), including risk appetite, risk monitoring and risk adjustments to remuneration.

- ***The Nomination and Governance Committee*** – assists the Chairman of the Board in keeping the composition of the Board under review, having regard to current and needs of the business including succession planning for both Board and executive level positions. The Nomination and Governance Committee also reviews the Board's governance arrangements and makes recommendations to the Board to ensure that the arrangements are consistent with best practice.

- ***The Board IT Strategy and Resilience Committee*** – responsible for providing oversight and advice to the Board on the IT strategy, architecture, delivery roadmap and architectural governance controls. The Committee also has oversight of the strategic investment portfolio and oversight of all individual programmes with an investment spend of over £50 million or of strategic importance.

- ***The Results Approval Committee*** – reviews and executes the decisions made by the Board in relation to the annual report and accounts, the interim results and the interim management statements of the Society.

Further details of the Audit Committee, the Remuneration Committee, the Board Risk Committee and the Nomination and Governance Committee are set out below.

The Audit Committee

The Audit Committee comprises four Non-Executive Directors: Kevin Parry (Chairman), Rita Clifton, Lynne Peacock and Tim Tookey. Kevin Parry is an experienced audit committee chairman and is considered by the Board to have a competency in accounting and auditing as well as recent and relevant financial experience.

By invitation, Audit Committee meetings are also attended by the Chairman of the Board, the Chief Executive Officer, the Chief Compliance Officer, the Chief Internal Auditor, the Chief Financial Officer, the Chief Products and Propositions Officer, the Chief Relationships and Distribution Officer, the Chief Risk Officer and the Director of Financial Reporting and the external auditors.

The Audit Committee's terms of reference include: (i) monitoring the integrity of Nationwide's financial statements, including reviewing significant financial reporting issues and judgements which they contain; (ii) reviewing the adequacy and effectiveness of risk management systems and internal controls over financial reporting; (iii) monitoring and reviewing the effectiveness of the internal audit function in the context of the Group's overall risk management system; and (iv) overseeing the relationship with the external auditor including, making recommendations to the Board on the appointment, reappointment, remuneration and removal of external auditors, assessing annually the auditor's independence and objectivity and reviewing the findings of the audit with the external auditor. 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 eight meetings during the financial year ended 4 April 2017.

The Remuneration Committee

The members of the Remuneration Committee are all independent Non-Executive Directors of the Society. During the financial year ended 4 April 2017, the committee members were: Lynne Peacock (Chairman of Remuneration Committee), Rita Clifton, David Roberts and Baroness Usha Prashar.

By invitation, Remuneration Committee meetings are also attended by the Chief Executive Officer but he does not attend discussions pertaining to his own remuneration.

The Remuneration Committee is responsible for determining and agreeing with the Board the framework or broad policy for the remuneration of the Chairman, directors and other senior executives, including employees who are identified as material risk takers under 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 met 11 times during the financial year ended 4 April 2017.

The Board Risk Committee

The Board Risk Committee comprises four Non-Executive Directors: Tim Tookey (Chairman), Mitchel Lenson, Kevin Parry and Lynne Peacock.

The Chairman of the Board and the Chief Executive Officer are not members of the committee although they usually attend meetings of the committee by invitation. By invitation, Board Risk Committee meetings are also attended by the Chief Financial Officer, the Chief Products and Propositions Officer, the Chief Risk Officer, the Chief Internal Auditor, the Chief Compliance Officer, the Chief Credit Officer, the Chief Relationships and Distribution Officer, the Director of Enterprise Risk Strategy and the external auditor. Other Directors and senior managers may be invited to attend as appropriate.

Under its terms of reference, the Board Risk Committee's responsibilities include (i) reviewing and making recommendations to the Board about risk appetite, (ii) approving the ERMF, key risk strategies, Pillar III disclosures and the recovery plan (all under mandate from the Board); (iii) reviewing the effectiveness of the Group's ERMF to identify, assess and manage risk within the agreed strategy and risk appetite; and (iv) reviewing the Group's risk profile in respect of performance against risk appetite, risk trends and risk concentrations. 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 nine times in the financial year ended 4 April 2017.

The Nomination and Governance Committee

The Nomination and Governance Committee comprises David Roberts (Chairman), Kevin Parry, Lynne Peacock and Tim Tookey. The Nomination and Governance Committee oversees the Society's governance arrangements, including keeping under review the structure, size and composition of the Board and its committees. It also considers succession planning for Board and executive level positions. Before any Board appointments are made, the committee evaluates the balance of skills, knowledge, diversity 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. The committee met five times in the financial year ended 4 April 2017.

All committees review their own performance and terms of reference annually to ensure they are operating at maximum effectiveness, and recommend 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 Credit Committee, the Operational Risk Committee and the Conduct and Compliance 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 month and comprises the Society's Chief Executive Officer, three other Executive Directors (the Chief Relationships and Distribution Officer, the Chief Financial Officer and the Chief Products and Propositions Officer) and nine other senior executives (the Chief Information Officer, the Chief Strategy and External Relations Officer, the Chief Marketing Officer, the Chief Transformation Officer, the Chief Risk Officer, the Chief Legal Officer and Society Secretary, the Director of Intermediaries, Branches and Regulated Advice, the Chief Data Officer and the Chief People Officer) with the Chief Internal Auditor also invited to attend.

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 four Executive Directors and a number of other members of the Executive Committee. The risk committees are the

- Asset and Liability Committee (**ALCO**);

- the Credit Committee;
- the Operational Risk Committee; and
- the Conduct and Compliance Committee.

ALCO determines and amends the Society's approach to financial risk and sets thresholds for endorsement by the Executive Risk Committee and the Board. It manages the financial risk profile of the Society in accordance with the ERMF, Board Risk Appetite, Society Strategy and the Financial Plan.

ALCO comprises the Chief Executive Officer, the Chief Financial Officer, the Chief Products and Propositions Officer, the Chief Risk Officer, the Director of Treasury, the Director of Financial Planning and Stress Testing and the Chief Credit Officer. For more information about the ALCO, see "*Part XVIII: Risk Management*".

The Credit Committee is responsible for determining and amending the Society's attitude to lending risk and set thresholds for endorsement by the Executive Risk Committee and the Board Risk Committee. It also manages the lending risk profile of the Society in accordance with the ERMF, Board Risk Appetite, Society Strategy and the Financial Plan.

The Committee's core membership comprises the Chief Credit Officer, the Chief Risk Officer, the Chief Products and Propositions Officer and the Chief Financial Officer who form the quorum for the Committee. Specialist members who also attend are the Head of Secured Credit Risk, the Head of Unsecured Portfolio Management, the Head of Property and Underwriting Risk Services, the Director of Modelling, the Head of Commercial and Treasury Credit Risk and the Director of Treasury.

The Operational Risk Committee is responsible for monitoring operational risks and exposures across the Society, in accordance with the Enterprise Risk Management Framework, Operational Risk Management Framework, Board Risk Appetite, and the Society's strategy. It ensures that controls over operational risk are designed and operating effectively and that actions to address control deficiencies are implemented in a timely manner.

The Committee's membership comprises the Chief Information Officer, the Chief Data Officer and representatives from the following communities: Operations & Delivery; Product and Proposition; Finance & Efficiency – Financial Controls; Finance & Efficiency – Supply Chain Management; and Risk - Financial Crime.

The *Conduct and Compliance Committee* oversees the Society's progress and implementation of significant conduct and compliance activity. It oversees and challenges the Society's products, services, procedures and policies designed to meet its conduct, compliance and regulatory obligations. In addition the Committee also oversees and reviews the management of the Society's conduct and compliance risk and incident exposures.

The quorum for business is four members, which must include the Chief Compliance Officer or the Director of Intermediaries, Branches and Regulated Advice.

PART XIII– CAPITALISATION AND INDEBTEDNESS

The following tables set out a summary of Nationwide's unaudited consolidated capitalisation as at 4 April 2017 and its unaudited financial indebtedness as at 31 July 2017, each prepared under IFRS using policies which are consistent with those used in the Consolidated Historical Financial Statements.

Consolidated capitalisation

The financial information in the table below relating to Nationwide's consolidated capitalisation as at 4 April 2017 has been extracted without material adjustment from the Consolidated Historical Financial Statements. Although, as a mutual organisation owned by its members, the Society does not have equity shareholders, share capital or capital reserves, it has issued other instruments which are accounted for as equity securities and information relating to these is included in the table below.

	As at 4 April 2017
Equity securities	
Core capital deferred shares[(1)]	531
Additional tier 1 instruments[(2)]	992
Total capitalisation	**1,523**

Notes:

(1) The claims of holders of core capital deferred shares rank behind those of depositors, creditors and investing members, including the claims of subordinated debt holders and holders of permanent interest bearing shares and additional tier 1 instruments. For further information in relation to Nationwide's outstanding core capital deferred shares, see note 34 to the 2017 Financial Statements.

(2) The claims of holders of additional tier 1 instruments rank pari passu with those of holders of permanent interest bearing shares. For further information in relation to Nationwide's outstanding additional tier 1 instruments, see note 35 to the 2017 Financial Statements.

There has been no change to the quantum of Nationwide's core capital deferred shares or additional tier 1 instruments since 4 April 2017.

For information on Nationwide's capital position, see "*Part XVI: Capital Adequacy*".

Consolidated financial indebtedness

The table below sets out Nationwide's consolidated financial indebtedness as at 31 July 2017. As the taking of deposits is part of the core business of Nationwide, this table does not classify deposits as indebtedness, except for TFS drawings which (although technically deposits) are regarded by Nationwide as a source of wholesale funding.

Nationwide had no indirect or contingent indebtedness at 31 July 2017. None of the financial indebtedness described below is guaranteed by any other person.

	As at 31 July 2017
	(*£ millions*)
Consolidated indebtedness	
Debt securities in issue[(1)]	43,117
Of which:	
Secured	19,518
Unsecured	23,599
Drawings under the TFS[(2)]	8,752
Total senior debt	**51,869**
Subordinated debt[(3)(4)]	

Comprising one issue maturing in each of 2018, 2020, 2022, 2023, 2026 and 2029	3,856
Total senior and subordinated debt	**55,725**
Permanent interest bearing shares(3)(5)	
Comprising eight issues, six of which bear interest at fixed rates and five of which are callable (subject to relevant supervisory consent) in 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	272
Total indebtedness	**55,997**

Notes:

(1) Nationwide has a covered bond programme which was established in 2005 and a securitisation programme which was established in 2008. As at 31 July 2017, the nominal values of mortgages pledged as security on debt issuances total £29,347 million, while additional mortgages of £19,206 million have been pledged as a pool as part of FLS and TFS.

(2) Drawings under the TFS are included within deposits from banks on the consolidated balance sheet within the 2017 Financial Statements.

(3) If the Society was to enter liquidation, the claims of subordinated debt holders would rank behind the claims of all depositors, creditors and investing members (other than holders of permanent interest bearing shares, additional tier 1 instruments and holders of core capital deferred shares). The claims of holders of permanent interest bearing shares rank behind those of subordinated debt holders, depositors, creditors and investing members, other than holders of additional tier 1 instruments (with whom they rank pari passu) and holders of core capital deferred shares. For further information in relation to Nationwide's outstanding subordinated debt and permanent interest bearing shares, see notes 22 and 23 to the 2017 Financial Statements.

(4) For consistency with other indebtedness, accrued interest of £37 million is included.

(5) For consistency with other indebtedness, accrued interest of £5 million is included.

PART XIV – SELECTED FINANCIAL INFORMATION

The following tables set out selected consolidated information which has been derived from the Consolidated Historical Financial Statements. All data in this section should be read in conjunction with the Consolidated Historical Financial Statements as well as "*Part XV: Operating and Financial Review*":

INCOME STATEMENT DATA

	Financial year ended 4 April		
	2017	**2016**	**2015**
		(*£ millions*)	
Interest receivable and similar income	5,050	5,294	5,347
Interest expense and similar charges	(2,090)	(2,208)	(2,475)
Net interest income	**2,960**	**3,086**	**2,872**
Fee and commission income	446	428	447
Fee and commission expense	(221)	(192)	(169)
Income from investments	—	3	4
Other operating income	100	8	9
Gains/(losses) from derivatives and hedge accounting	66	39	(20)
Total income	**3,351**	**3,372**	**3,143**
Administrative expenses	(2,021)	(1,847)	(1,706)
Impairment losses on loans and advances to customers	(131)	(81)	(233)
Impairment (losses)/recoveries on investment securities	(9)	8	(18)
Provisions for liabilities and charges	(136)	(173)	(142)
Profit before tax	**1,054**	**1,279**	**1,044**
Taxation	(297)	(294)	(205)
Profit after tax	**757**	**985**	**839**

STATEMENT OF COMPREHENSIVE INCOME DATA

	Financial year ended 4 April		
	2017	**2016**	**2015**
		(*£ millions*)	
Profit after tax	**757**	**985**	**839**
Other comprehensive (expense)/income			
Items that will not be reclassified to the income statement			
Remeasurements of retirement benefit obligations:			
Retirement benefit remeasurements before tax	(347)	42	(136)
Taxation	92	9	21
	(255)	51	(115)

Revaluation of property:			
Revaluation before tax	1	4	5
Taxation	2	(7)	1
	3	(3)	6
Other items through the general reserve, including effect of corporation tax rate change	(1)	(1)	(1)
	(253)	**47**	**(110)**
Items that may subsequently be reclassified to the income statement			
Cash flow hedge reserve:			
Fair value movements taken to members' interests and equity	1,671	2,099	(503)
Amount transferred to income statement	(2,019)	(1,666)	664
Taxation	101	(132)	(32)
	(247)	301	129
Available for sale reserve:			
Fair value movements taken to members' interests and equity	176	(60)	(79)
Amount transferred to income statement	(106)	19	183
Taxation	(18)	7	(27)
	52	(34)	77
Other comprehensive (expense)/income	**(448)**	**314**	**96**
Total comprehensive income	**309**	**1,299**	**935**

BALANCE SHEET DATA

	As at 4 April		
	2017	**2016**	**2015**
		(£ millions)	
Assets			
Cash	13,017	8,797	4,325
Loans and advances to banks	2,587	3,591	3,392
Available for sale investment securities	9,764	10,612	11,037
Derivative financial instruments	5,043	3,898	3,337
Fair value adjustment for portfolio hedged risk	746	756	592
Loans and advances to customers	187,371	178,807	170,647
Investments in equity shares	67	126	26
Intangible assets	1,230	1,191	1,040
Property, plant and equipment	851	823	856
Investment properties	8	8	8

Accrued income and expenses prepaid	191	166	192
Deferred tax	103	35	38
Other assets	692	129	90
Total assets	**221,670**	**208,939**	**195,580**
Liabilities			
Shares	144,542	138,715	132,373
Deposits from banks	8,734	2,095	1,974
Other deposits	6,459	7,635	9,076
Due to customers	2,376	6,201	6,119
Fair value adjustment for portfolio hedged risk	8	13	14
Debt securities in issue	40,339	36,085	28,105
Derivative financial instruments	3,182	3,463	4,048
Other liabilities	391	414	475
Provisions for liabilities and charges	387	343	295
Accruals and deferred income	333	288	369
Subordinated liabilities	2,905	1,817	2,121
Subscribed capital	276	413	415
Deferred tax	100	186	53
Current tax liabilities	82	128	116
Retirement benefit obligations	423	213	286
Total liabilities	**210,537**	**198,009**	**185,839**
Members' interests and equity			
Core capital deferred shares	531	531	531
Other equity instruments	992	992	992
General reserve	9,316	8,921	7,995
Revaluation reserve	67	64	68
Cash flow hedge reserve	183	430	129
Available for sale reserve	44	(8)	26
Total members' interests and equity	**11,133**	**10,930**	**9,741**
Total members' interests, equity and liabilities	**221,670**	**208,939**	**195,580**

SELECTED RATIOS AND OTHER FINANCIAL DATA

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 Statements.

	As at/financial year ended 4 April		
	2017	2016	2015
	(*£ millions, except percentages*)		
Capital ratios			
Common Equity Tier 1 ratio[(1)]	25.4%	23.2%	19.8%
Total tier 1 capital ratio[(1)]	28.4%	26.1%	22.5%
Total regulatory capital ratio[(1)]	36.1%	30.9%	27.0%
CRR leverage ratio[(1)]	4.2%	4.2%	4.1%
UK leverage ratio[(1)]	4.4%	4.4%	N/A
Liquidity coverage ratio	124.0%	142.6%	119.3%
Other financial data			
Ratio of administrative expenses to mean total assets[(2)]	0.94%	0.91%	0.89%
Profit before tax (underlying)[(3)]	1,030	1,337	1,227
Profit before tax (statutory)	1,054	1,279	1,044
Cost income ratio (underlying)[(4)]	60.2%	53.9%	51.4%
Cost income ratio (statutory)[(4)]	60.3%	54.8%	54.3%
Return on average total assets[(5)]	0.35%	0.49%	0.44%
Net interest margin[(6)]	1.33%	1.52%	1.47%

Notes:

(1) See "*Part VI: Presentation of Information*" under the heading "*Alternative performance measures and other non-IFRS financial information—Other non-IFRS financial information—Capital and leverage ratios*" in section 2 (*Presentation of financial information*)".

(2) This ratio, which is an APM, is a measure of efficiency and presents administrative expenses as a percentage of the average of total assets at the start and end of each period.

(3) The manner in which this APM is calculated and the rationale for presenting it are discussed in "*Part VI: Presentation of Information*" under the heading "*Alternative performance measures and other non-IFRS financial information—Alternative performance measures—Underlying profit before tax*" in section "2. *Presentation of financial information*".

(4) These ratios, which are APMs, are measures of efficiency and present administrative expenses as a proportion of total income.

(5) This ratio, which is an APM, presents profit on ordinary activities after tax as a percentage of average total assets at the start and end of each period.

(6) The manner in which this APM is calculated and the rationale for presenting it are discussed in "*Part VI: Presentation of Information*" under the heading "*Alternative performance measures and other non-IFRS financial information—Alternative performance measures—Net interest margin*" in section "2. *Presentation of financial information*".

For further discussion of the Society's Common Equity Tier 1 ratio and leverage ratio, see "*Part XVI: Capital Adequacy*".

PART XV – OPERATING AND FINANCIAL REVIEW

The following discussion should be read in conjunction with "*Part XIV: Selected Financial Information*" and the Consolidated Historical Financial Statements incorporated by reference in this document.

Nationwide prepares its financial statements in accordance with IFRS. Nationwide's financial year ends on 4 April each year. References in this document to **FY2017**, **FY2016** and **FY2015** are to the financial year ended 4 April in each of those years.

1. OVERVIEW

Nationwide is a building society, regulated by the FCA in relation to conduct of business matters and by the PRA in relation to prudential requirements. Nationwide's core business is providing personal financial services, primarily residential mortgage lending funded largely through retail savings. As a mutual organisation, other than in respect of a relatively small amount of funding provided by investors in its deferred shares (including its PIBS, additional tier 1 instruments and CCDS), Nationwide is not funded by shareholders, which means that it is managed for the benefit of its members, who are its current account, retail savings and residential mortgage customers (as well as the holders of its deferred shares), rather than for equity shareholders. Nationwide returns value to its members by offering typically higher interest rates on savings and lower interest rates on loans than those offered by Nationwide's main competitors. As a result, Nationwide generally earns lower pre-tax profits than its main competitors, which are primarily banks or other non-mutual organisations. As a mutual organisation, Nationwide pays no dividends (although it pays periodic investment returns on its CCDS at its discretion and interest on its additional tier 1 and tier 2 capital securities), and its net earnings are put into reserves and constitute Tier 1 capital for its capital adequacy requirements. For information regarding UK capital adequacy requirements, see "*Part XVI: Capital Adequacy*".

2. FINANCIAL PERFORMANCE

Nationwide's statutory profit before tax was £1,054 million for FY2017 (compared to £1,279 million for FY2016 and £1,044 million for FY2015) and underlying profit before tax was £1,030 million for FY 2017 (compared to £1,337 million for FY2016 and £1,227 million for FY2015), reflecting Nationwide's continued focus on offering value on its products and better service for its members, whilst maintaining an appropriate capital position.

An advantage of being a building society is that Nationwide can choose to forgo an element of profitability in order to deliver more value to its members, whilst ensuring that it maintains financial strength. In 2016, Nationwide introduced a financial performance framework with parameters which enable it to calibrate future performance to achieve the right balance between distributing value to members and maintaining financial strength. Despite the reduction in profitability in FY2017, underlying profit remains comfortably within the target range set for capital planning purposes by Nationwide's financial performance framework.

Nationwide's underlying cost income ratio deteriorated to 60.2 per cent. in FY2017 (from 53.9 per cent. in FY2016 and 51.4 per cent. in FY2015) primarily due to increased costs against relatively stable total underlying income. See Section 6 (*Costs*) below for a detailed discussion of costs trends over the three-year period to 4 April 2017.

Nationwide's impairment provisions increased in FY2017 following a review of the secured and unsecured lending portfolios to ensure that the evidence of impairment and latent risks during the low interest rate environment are adequately represented in the model assumptions, and that appropriate provisions are held for interest only loans where borrowers may be unable to repay capital balances at maturity. Nationwide's impairment provisions in FY2016 were significantly lower than in FY2015, primarily as a result of improvement in asset quality and a reduction in the size of its commercial real estate loan portfolio.

Nationwide's total assets grew by £12.7 billion to £222 billion as at 4 April 2017, largely due to a £9.1 billion increase in residential mortgages. Of this, £8.0 billion related to prime mortgages and reflects a strong trading performance aligned to Nationwide's strategic objective of increasing its market share of prime mortgages. The remainder of the balance sheet growth in FY2017 was driven by an increase in high quality liquid assets as Nationwide replaced off-balance sheet FLS liquidity with on-balance sheet TFS liquidity. Nationwide's total assets grew by £13.4 billion to £208.9 billion as at 4 April 2016. This was largely attributable to £9.3 billion growth in residential mortgage lending. The remaining growth was driven by an increase in high quality liquid assets, with Nationwide's liquidity coverage ratio (the **LCR**) increasing to 142.6 per cent. as at 4 April 2016 from 119.3 per cent. as at 4 April 2015.

Nationwide reported CET1 and UK leverage ratios of 25.4 per cent. and 4.4 per cent. respectively as at 4 April 2017 (compared to 23.2 per cent. and 4.4 per cent. respectively as at 4 April 2016 and a CET1 ratio of 19.8 per cent. as at 4 April 2015). Nationwide's UK leverage ratio, which was introduced by the PRA in 2016, remained unchanged as profits broadly offset the increase in the defined benefit pension deficit and balance sheet growth driven by increases in mortgage balances.

3. IMPACT OF ECONOMIC CONDITIONS IN THE UK GENERALLY AND OUTLOOK

Nationwide has benefitted from generally positive economic conditions in each of the three financial years ended 4 April 2017, which have helped it grow its core lending and savings operations and also beneficially impacted its underlying impairment charges. Nationwide's net interest income was negatively impacted by the reduction in the base rate in mid-2016, particularly as Nationwide sought to protect its savings customers from the full impact of the cut. The generally positive economic environment has also contributed to increasing competition, particularly for retail loan and deposit customers. Nationwide has not been significantly impacted by the significant devaluation in sterling that followed the UK's EU-exit referendum in the summer of 2016, as its main sources of revenue and expenses are almost entirely in sterling.

Nationwide expects that its financial performance in the period ahead is likely to be influenced by:

- sustained competition within the mortgage and savings markets, resulting in further margin pressure; and
- its continued investment in long-term product development, services and security in order to meet its members' current and future needs by providing good, long-term value products, services and security.

These two factors are likely to moderate Nationwide's profits in the period ahead.

In addition, the threat of cyber-attacks has increased, and will require ongoing focus and investment as Nationwide seeks constantly to maintain the resilience of its systems and to protect the interests of its members. The continual evolution of technology, changing customer preferences and regulatory change will affect the whole industry, and Nationwide intends to continue to invest to ensure that it is able to deliver value to its members and maintain excellent relationships with its regulators.

Nationwide expects that uncertainty surrounding the economic outlook and the negotiations with the European Union are likely to have some impact on UK economic activity in the next couple of years. Its central expectation is that if this uncertainty lifts and the UK government manages to negotiate a suitable trading relationship with the EU, UK economic growth will move back towards its long-term trend rate of 2 to 2.5 per cent. a year. Nationwide expects the household sector to remain supportive, underpinned by a resilient labour market. The prospects for the housing market are linked to developments in the broader economy. While Nationwide expects a slowdown in house price growth over the next two to three years, a resilient labour market and under supply of housing should act as supporting factors.

4. NET INTEREST INCOME

Nationwide's net interest income decreased by £126 million, or 4 per cent., in FY2017 to £2,960 million as at 4 April 2017 compared to £3,086 million in FY2016. Nationwide's net interest income increased by £214 million, or 7 per cent., in FY2016 from £2,872 million in FY2015.

The reduction in Nationwide's net interest income in FY2017 was primarily due to ongoing competition in the mortgage market and Nationwide's continued focus on delivering long-term value to its members, combined with the ongoing natural run off of its base mortgage rate (**BMR**) and standard mortgage rate (**SMR**) balances. The competitive rates available across the market have led to more members switching to competitively priced products (£17.0 billion of members' balances switched to lower priced Nationwide mortgages in FY2017) and higher redemptions. This reduction in back book balances, together with lower margins on new business pricing, has resulted in downward pressure on Nationwide's net interest margin which was 1.33 in FY2017 compared to 1.52 per cent. in 2016.

The increase in Nationwide's net interest income in FY2016 principally reflected a 4 per cent. growth in average interest earning assets and a 0.05 per cent. increase in its net interest margin as savings rates fell across the industry, although this positive trend was partially offset by a decrease in mortgage margins reflecting increased competition.

The table below shows the calculation of Nationwide's net interest margin for each of FY2017, FY2016 and FY2015.

	FY2017	**FY2016**	**FY2015**
	(*£ millions, except percentages*)		
Net interest income	2,960	3,086	2,872
Weighted average total assets	222,901	203,623	195,429
Net interest margin	**1.33%**	**1.52%**	**1.47%**

The impact on the UK economy of the decision to leave the European Union remains highly uncertain. This uncertainty extends to the interests rate outlook, where there are plausible scenarios with rates being increased, remaining unchanged or being lowered further in the period ahead, depending on economic developments. However, Nationwide's central expectation is that interest rates will remain at historically low levels for a prolonged period.

Competition in retail lending markets remains intense and the ongoing refinancing of Nationwide's existing mortgage stock, including base mortgage rate (BMR) balances continues in line with both recent experience and the Society's expectations. Nationwide currently expects its NIM to remain relatively stable in the financial year ending 4 April 2018, but with the potential for limited downward pressure, particularly if current levels of competition are sustained or intensify.

Increased competition for new mortgage lending has led to a reduction in mortgage rates offered which, in turn, resulted in less interest income with which to pay interest on savings deposits, so driving a reduction in offered saving rates across the industry. In line with Nationwide's mutual principles, it has chosen to forgo an element of profitability through resisting lowering savings rates where possible and offering competitive products.

Following the decision by the BoE to cut its base rate to 0.25 per cent. in August 2016, Nationwide committed to protecting members who save regularly, or are building a deposit to buy their own home, resulting in several products being protected from the base rate decrease. Nationwide has also applied a 0.10 per cent. rate floor to all variable products.

5. INTEREST RATE MANAGEMENT

Because the majority of Nationwide's assets and liabilities are either floating rate instruments or synthetically converted to floating rate instruments using derivatives, variations in market interest rates have a direct impact on its interest income and interest expense. Fluctuations in market interest rates, however, give Nationwide the opportunity to manage its interest rate margins and, for most of its assets and liabilities, Nationwide can reprice the interest rate that it offers, subject to market and competitive pressures.

The table below shows the daily average three-month sterling LIBOR rates (11:00 a.m. British Bankers' Association fixing) and average BoE base rates for each of FY2017, FY2016 and FY2015.

	FY2017	FY2016	FY2015
		(*per cent.*)	
Daily average three-month sterling LIBOR................	0.44	0.58	0.55
Average BoE base rate	0.34	0.50	0.50

Interest rate risk arises from the mortgage, savings and other financial services products that Nationwide offers. The varying interest rate features and maturities of retail products and wholesale funding create exposures to interest risks. This is due to the imperfect matching of variable interest rates, in particular BoE base rate and LIBOR, and timing differences on the re-pricing of assets and liabilities. The risk is managed through the use of derivatives and other appropriate financial instruments and through product design.

Low and flat interest rates continue to dominate, driven by reduced expectations for economic growth. Market conditions continue to be characterised by low interest rates with an uncertain economic environment leading to volatility in these rates. The BoE base rate remained unchanged in FY2015 and FY2016 and was reduced from 0.5 per cent. to 0.25 per cent. in August 2016. Underlying rates in longer-term debt securities markets, principally gilts, have also fallen.

The BMR is guaranteed to be no more than 2 per cent. above the BoE base rate. This rate is significantly lower than the equivalent standard variable rate charged by Nationwide's peers, or the SMR onto which Nationwide's mortgages advanced since April 2009 revert. This has the effect of compressing Nationwide's mortgage margins and reducing the flexibility with which these margins can be managed. However, the BMR portfolio is well seasoned, has low arrears rates and low possession rates, which partly compensates for the low margin it yields.

6. COSTS

Nationwide experienced cost growth in each of FY2017 and FY2016, as a result of conscious decisions to support the Society's strategy and the service provided to members.

Underlying administrative expenses increased by £183 million, or 10 per cent., in FY2017 to £1,979 million due to increases in employee costs and strategic investment in propositions and service for members, as well as restructuring costs to drive efficiency and the costs of servicing higher business volumes. The underlying cost income ratio deteriorated by 6.3 per cent. to 60.2 per cent. in FY2017 from 53.9 per cent. in FY2016. At a statutory level, administrative expenses increased by £174 million, or 9 per cent., in FY2017 to £2,021 million.

In FY2016, underlying administrative expenses increased by £150 million, or 10 per cent., to £1,796 million, reflecting ongoing investment in the business. The underlying cost income ratio increased 2.5 per cent. in FY2016 from 51.4 per cent. in FY2015 as a result of the growth in administrative expenses described above, which reflected Nationwide's focus on improving product propositions and services for its members whilst remaining strong, safe and secure. At a statutory level administrative expenses increased by £141 million, or 8 per cent., in FY2016 to £1,847 million.

Nationwide's cost trajectory reflects significant business growth and investment over recent years. Mortgage balances have grown 18 per cent. over the three years to 4 April 2017 and Nationwide had 42 per cent. more main current accounts as at 4 April 2017 than as at 4 April 2014.

During FY2017, Nationwide's employee costs increased by £57 million to £793 million, reflecting an annual pay award averaging 2.1 per cent. and higher full year costs from enhancements made in FY2016 to the defined contribution pension scheme in line with Nationwide's commitment to provide a 'Living Pension'. Average employee numbers increased by 4 per cent. in FY2017 compared to FY2016 to build greater capacity to meet additional business volumes, deliver Nationwide's investment strategy and further strengthen its control functions.

During FY2016, Nationwide's employee costs increased by £65 million to £736 million reflecting the impact of annual pay awards averaging 3.0 per cent. in FY2016 and 2.5 per cent. in FY2015 and higher costs resulting from enhancements to the Nationwide Group Personal Pension Plan. In addition, employee numbers increased by 3 per cent. in FY2016 compared to FY2015 as Nationwide continued to build greater capacity to support its members' needs and strengthen its risk and control functions.

During FY2017 and FY2016, investment focused on service improvements for members, both in branch and through digital channels, including updating Nationwide's savings point of sale systems to allow real time online account opening, delivery of in-house credit risk assessments for prime mortgages, upgrades to Nationwide's Banking App for smartphones and tablets, and the roll out of further video links in branches which allow members greater flexibility to speak face to face with advisors in another location. Nationwide also invested in IT resilience and core product platforms to meet additional business volumes, and ensuring compliance with UK and EU regulatory requirements. In addition, in FY2017, Nationwide invested £43 million in improving longer-term efficiency, including accelerating automation and digitised service delivery. Nationwide also incurred costs associated with organisational simplification, the announced closure of its Isle of Man and Republic of Ireland operations and its withdrawal from the commercial real estate sector in FY2017.

However, Nationwide recognises the need to improve efficiency and that cost increases significantly ahead of inflation are not sustainable in the continuing low interest rate environment it faces. Nationwide intends to continue its focus on operational efficiency, exploiting the benefits of past and ongoing investment while continuing to prioritise the needs of its members. During FY2017, Nationwide launched an efficiency programme which targets £300 million of sustainable cost savings to be delivered by 2022. This included investing £43 million in FY2017 in improving longer-term efficiency, including accelerating automation and digitised service delivery, costs associated with organisational simplification, the announced closure of Nationwide's Isle of Man and Republic of Ireland operations and its withdrawal from the commercial real estate (**CRE**) sector. Nationwide has allocated approximately £100 million over the three years to 4 April 2020 to support the programme. Nationwide anticipates that its focus on efficiency will enable it to achieve broadly flat costs in the financial year ending 4 April 2018.

7. RESULTS OF OPERATIONS FOR FY2017, FY2016 AND FY2015 COMPARED

7.1 Introduction

Nationwide believes that its results for FY2017 and FY2016 indicate strong performance, with underlying profit before tax (as explained below) of £1,030 million in FY2017, £1,337 million in FY2016 and £1,227 million in FY2015, and statutory profit before tax of £1,054 million in FY2017, £1,279 million in FY2016 and £1,044 million in FY2015.

The table below reconciles Nationwide's underlying profit to its reported statutory profit before tax in each of FY2017, FY2016 and FY2015.

	Financial year ended 4 April		
	2017	**2016**	**2015**
		(£ millions)	
Net interest income	2,960	3,086	2,872
Net other income	325	247	291
Total underlying income	**3,285**	**3,333**	**3,163**
Underlying administrative expenses	(1,979)	(1,796)	(1,626)
Impairment losses	(140)	(73)	(251)
Underlying provisions for liabilities and charges	(136)	(127)	(59)
Underlying profit before tax	**1,030**	**1,337**	**1,227**
Transformation costs(1)	—	(10)	(52)
Bank levy(1)	(42)	(41)	(28)
FSCS(1)	—	(46)	(83)

Gains/(losses) from derivatives and hedge accounting[(1)(2)]	66	39	(20)
Statutory profit before tax	**1,054**	**1,279**	**1,044**

Note:

(1) Within the statutory results presented in the Financial Statements:
 (a) transformation costs and bank levy are presented within administrative expenses;
 (b) FSCS costs are presented within provisions for liabilities and charges; and
 (c) gains and losses from derivatives and hedge accounting are presented within total income.

(2) Although Nationwide only uses derivatives to hedge market risks, income statement volatility can still arise due to hedge accounting ineffectiveness or because hedge accounting is either not currently applied or is not currently achievable. The volatility is largely attributable to accounting rules which do not fully reflect the economic reality of the hedging strategy.

Nationwide's underlying profit before tax for FY2017 fell by £307 million, or 23 per cent., to £1,030 million in FY2017 from £1,337 million in FY2016. Its total underlying income decreased by £48 million, or 1 per cent., to £3,285 million in FY2017 compared to FY2016.

Nationwide's financial performance for FY2017 saw statutory profit before tax down by £225 million, or 18 per cent., compared to FY2016, reflecting a £126 million, or 4 per cent., decrease in net interest income and a reduction in asset quality with impairment losses increasing by £67 million, or 92 per cent.

Nationwide's underlying profit before tax for FY2016 increased by £110 million, or 9 per cent., to £1,337 million from £1,227 million for FY2015. Its total underlying income increased by £170 million, or 5 per cent., to £3,333 million in FY2016 from £3,163 million in FY2015.

Nationwide's financial performance for FY2016 was strong with statutory profit before tax up by £235 million, or 23 per cent., compared to FY2015, reflecting a £214 million, 7 per cent., increase in net interest income, underpinned by Nationwide's strong operating performance, and an improvement in asset quality with impairment losses falling by £178 million, or 71 per cent.

The following discussion considers Nationwide's results for FY2017 compared to its results for FY2016 and its results for FY2016 compared to its results for FY2015.

7.2 Total income

Nationwide's total income decreased to £3,351 million in FY2017 compared to £3,372 million in FY2016 and £3,143 million in FY2015. The following table shows the components of Nationwide's total income for each of FY2017, FY2016 and FY2015.

	FY2017	**FY2016**	**FY2015**
		(£ millions)	
Net interest income	2,960	3,086	2,872
Net fees and commissions	225	236	278
Income from investments	—	3	4
Other operating income	100	8	9
Gains/(losses) from derivatives and hedge accounting	66	39	(20)
Total income	**3,351**	**3,372**	**3,143**

Net interest income

Nationwide's net interest income decreased by £126 million, or 4 per cent., to £2,960 million for FY2017 compared to £3,086 million for FY2016 and increased by £214 million, or 7 per cent., from £2,872 million in FY2015.

The table below shows the components of net interest income for each of FY 2017, FY2016 and FY2015.

	FY2017	FY2016	FY2015
		(£ millions)	
Interest receivable and similar income			
On residential mortgages	4,843	5,009	4,981
On other loans	774	835	953
On investment securities	372	403	412
On other liquid assets	59	33	28
Net expense on financial instruments hedging assets	(998)	(986)	(1,027)
Total interest receivable and similar income	**5,050**	**5,294**	**5,347**
Interest expense and similar charges			
On UK retail member deposits	(1,390)	(1,577)	(1,897)
On subscribed capital	(34)	(26)	(42)
On deposits and other borrowings:			
On subordinated liabilities	(128)	(99)	(115)
Other	(450)	(577)	(171)
On debt securities in issue	(767)	(690)	(725)
Net income on financial instruments hedging liabilities	684	768	481
Interest on net defined benefit pension liability	. (5)	(7)	(6)
Total interest expense and similar charges	**(2,090)**	**(2,208)**	**(2,475)**
Net interest income	**2,960**	**3,086**	**2,872**

Interest receivable and similar income

Nationwide's interest receivable and similar income decreased by £244 million, or 5 per cent., in FY2017 to £5,050 million from £5,294 million in FY2016. Nationwide's interest receivable and similar income decreased by £53 million, or 1 per cent., in FY2016 from £5,347 million in FY2015.

On residential mortgages

Interest on residential mortgages decreased by £166 million, or 3 per cent., to £4,843 million in FY2017 from £5,009 million in FY2016. Interest on residential mortgages increased by £28 million, or 1 per cent., in FY2016 from £4,981 million in FY2015. In FY2017, the 3 per cent. decrease reflected reduced average yields which were partly offset by higher average balances.

On other loans

Interest on other loans includes interest income that Nationwide earns from commercial loans, credit card lending, unsecured personal loans and current account overdrafts. Interest on other loans decreased by £61 million, or 7 per cent., to £774 million in FY2017 from £835 million in FY2016. Interest on other loans decreased by £118 million, or 12 per cent., in FY2016 from £953 million in FY2015. In both years, this principally reflected lower average yields as well as a decrease in commercial lending assets.

On investment securities

Interest and other income from investment securities comprises interest income earned on the corporate and government investment securities that Nationwide purchases for its own account to manage its liquidity portfolios and net realised gains and losses on Nationwide's sales of these instruments.

Interest and other income from investment securities decreased by £31 million, or 8 per cent., to £372 million for FY2017 from £403 million for FY2016. Interest and other income from investment securities decreased by £9 million, or 2 per cent., for FY2016 from £412 million for FY2015. In FY2017, the 8 per cent. decrease is primarily due to lower average balances and yields, partially offset by an increase in realised gains and losses on disposals.

Net expense on financial instruments hedging assets

Derivative instruments are used to synthetically convert fixed rate assets to floating rate assets. The floating rate income and fixed rate expense on these derivatives are included as "net expense on financial instruments hedging assets." In FY2017, Nationwide incurred a net expense of £998 million on financial instruments used to hedge its fixed rate assets, compared with a net expense of £986 million in FY2016 and a net expense of £1,027 million in FY2015.

Interest expense and similar charges

Nationwide's interest expense and similar charges decreased by £118 million, or 5 per cent., in FY2017 to £2,090 million from £2,208 million in FY2016. Nationwide's interest expense and similar charges decreased by £267 million, or 11 per cent., in FY2016 from £2,475 million in FY2015.

On UK retail member deposits

Interest expense on UK retail member deposits includes interest that Nationwide pays on UK savings and current accounts held by its members. Interest expense on UK retail member deposits decreased by £187 million, or 12 per cent., to £1,390 million in FY2017 from £1,577 million in FY2016. Interest expense on UK retail member deposits decreased by £320 million, or 17 per cent., from £1,897 million in FY2015.

The average interest rate that Nationwide paid to depositors decreased to 0.97 per cent. for FY2017 compared with 1.17 per cent. for FY2016, which accounted for the majority of the decrease in interest paid. There was also an increase of 6 per cent. in the average balance of UK retail member deposits held to £143,208 million in FY2017 from £135,258 million in FY2016.

The average interest rate that Nationwide paid to depositors decreased to 1.17 per cent. for FY2016 compared with 1.43 per cent. for FY2015, which accounted for the majority of the decrease in interest paid. There was also an increase of 2 per cent. in the average balance of UK retail member deposits held from £133,095 million in FY2015.

In FY2017, Nationwide increased its market share of the personal current account market to 7.5 per cent. as at the end of February 2017 compared to 7.1 per cent. as at the end of February 2016 and 6.8 per cent. as at the end of February 2015 according to CACI data. Nationwide has been a supporter and beneficiary of the drive to make account switching quicker and easier, averaging an 18 per cent. share of all account switching in FY2017, a 12.5 per cent. share of all account switching in FY2016 and an 8.4 per cent. share of all account switching in FY2015.

On deposits and other borrowings

Interest expense on deposits and other borrowings includes interest that Nationwide pays on subordinated debt instruments and other deposits and borrowings.

In FY2017, interest paid on subordinated liabilities increased by £29 million, or 29 per cent., to £128 million from £99 million in FY2016. Average balances increased by £611 million, or 33 per cent., to £2,477 million in FY2017 from £1,866 million in FY2016. In FY2016, interest paid on subordinated liabilities decreased by £16 million, or 14 per cent., from £115 million in FY2015. Average balances decreased by £336 million, or 15 per cent., in FY2016 from £2,202 million in FY2015.

Other interest expense on deposits and other borrowings includes the interest that Nationwide pays on retail deposits by non-members, deposits from banks and other money market deposits. In FY2017, other interest expense on deposits and other borrowings decreased by £127 million, or 22 per cent., to £450 million from £577 million in FY2016. In FY2016, other interest expense on deposits and other borrowings increased by £406 million from £171 million in FY2015.

The decrease in FY2017 includes an expense of £327 million (compared to £439 million in FY2016) in relation to the redemption and maturity of protected equity bond (**PEB**) deposits which have returns linked to the performance of specified stock market indices. The PEBs are economically hedged using equity-linked derivatives. Net income on financial instruments hedging liabilities includes income of £308 million in FY2017 (compared to £398 million in FY2016) in relation to the associated derivatives.

The increase in FY2016 includes an expense of £439 million (compared to £50 million in FY2015) in relation to the redemption and maturity of PEBs. Net income on financial instruments hedging liabilities includes income of £1 million in FY2015 in relation to the associated derivatives.

Debt securities in issue

Debt securities in issue includes interest that Nationwide pays on certificates of deposit, time deposits, commercial paper, covered bonds, medium-term notes and securitisations. In FY2017, interest expense on debt securities in issue increased by £77 million, or 11 per cent., to £767 million from £690 million in FY2016. In FY2016, interest expense on debt securities in issue decreased by £35 million, or 5 per cent., from £725 million in FY2015. In FY2017, the 11 per cent. increase is primarily due to increased issuances of medium-term notes in the year and the full year impact of issuances during FY2016.

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 FY2017, net income on financial instruments used to hedge Nationwide’s fixed rate liabilities was £684 million compared to £768 million in FY2016 and £481 million in FY2015.

Net fees and commissions

The table below shows the components of net fees and commissions for each of FY2017, FY2016 and FY2015.

	FY2017		
	Income	**Expense**	**Net**
		(£ millions)	
Current account and savings	229	(156)	73
General insurance	81	—	81
Protection and investments	78	—	78
Mortgage	10	—	10
Credit card	37	(42)	(5)
Other fees and commissions	11	(23)	(12)
Net fees and commissions	**446**	**(221)**	**225**

	FY2016		
	Income	Expense	Net
		(*£ millions*)	
Current account and savings	199	(126)	73
General insurance	78	—	78
Protection and investments	73	—	73
Mortgage	20	(3)	17
Credit card	46	(36)	10
Other fees and commissions	12	(27)	(15)
Net fees and commissions	**428**	**(192)**	**236**

	FY2015		
	Income	Expense	Net
		(*£ millions*)	
Current account and savings	191	(108)	83
General insurance	88	—	88
Protection and investments	75	—	75
Mortgage	21	(1)	20
Credit card	67	(41)	26
Other fees and commissions	5	(19)	(14)
Net fees and commissions	**447**	**(169)**	**278**

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 FY2017, net fees and commissions decreased by £11 million, or 5 per cent., to £225 million from £236 million in FY2016, principally reflecting movements in net credit card fees and commissions (£15 million lower in FY2017), mortgage fees and commissions (£7 million lower in FY2017) and protection and insurance fees and commissions (£5 million higher in FY2017). In FY2016, net fees and commissions decreased by £42 million, or 15 per cent., from £278 million in FY2015, principally reflecting movements in net credit card fees and commissions (£16 million lower in FY2016), current account and savings fees and commissions (£10 million lower in FY2016) and general insurance fees and commissions (£10 million lower in FY2016). Credit card fees reduced following the introduction of regulatory caps in December 2015. In addition, in FY2016, Nationwide removed unauthorised overdraft fees and fees on credit cards associated with spending above authorised credit limits and its general insurance income was lower following a higher level of claims due to adverse weather conditions.

Other operating income

In FY2017, other operating income increased to £100 million from £8 million in FY2016 and £9 million in FY2015. On 21 June 2016, Nationwide sold its share in Visa Europe Limited, resulting in a gain on disposal of £100 million.

Gains/losses on derivatives and hedge accounting

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

Building Societies Act, 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. These derivatives are therefore used exclusively to hedge risk exposures and are not used for speculative purposes.

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

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

Gains from derivatives and hedge accounting were £66 million in FY2017 compared to gains of £39 million in FY2016 and losses of £20 million in FY2015. Income statement volatility arises due to accounting ineffectiveness of designated hedges, or because hedge accounting has not been adopted or is not achievable.

The gains and losses described above reflect:

- Gains of £61 million in FY2017 and £85 million in FY2016 and a loss of £46 million in FY2015 from fair value hedge accounting. This includes gains of £47 million in FY2017 and £66 million in FY2016 and a loss of £30 million in FY2015 from macro hedges, due to hedge ineffectiveness and the amortisation of existing balance sheet amounts. In addition, gains of £14 million in FY2017 and £19 million in FY2016 and a loss of £16 million in FY2015 relate to micro hedges due to a combination of hedge ineffectiveness, maturities and disposals.

- A gain of £8 million in FY2017 and losses of £46 million in FY2016 and £53 million in FY2015 relating to the mortgage pipeline. The income statement includes the full fair value movement of forward starting interest rate swaps economically hedging the pipeline; however Nationwide only elects to fair value certain underlying mortgage business within the pipeline.

- Losses of £19 million in FY2017 and £37 million in FY2016 and a gain of £93 million in FY2015 from valuation adjustments and volatility on other derivatives which are not currently in an IAS 39 hedge accounting relationship.

- Gains of £20 million in FY2017 and £36 million in FY2016 and a loss of £11 million in FY2015 from the retranslation of foreign currency monetary items not subject to effective hedge accounting, against a backdrop of significant sterling depreciation.

7.3 Operating expenses and similar charges

Operating expenses and similar charges increased in FY2017 to £2,297 million compared to £2,093 million in FY2016 and £2,099 million in FY2015.

The table below shows the components of operating expenses and similar charges for each of FY2017, FY2016 and FY2015.

	FY2017	**FY2016**	**FY2015**
		(£ millions)	
Administrative expenses............................	1,625	1,522	1,412
Depreciation, amortisation and impairment.	396	325	294
Impairment losses on loans and advances to customers..	131	81	233

Impairment losses/(recoveries) on investment securities	9	(8)	18
Provisions for liabilities and charges	136	173	142
Total operating expenses and similar charges	**2,297**	**2,093**	**2,099**

Administrative expenses

Administrative expenses (excluding depreciation, amortisation and impairment) increased by £103 million, or 7 per cent., in FY2017 to £1,625 million from £1,522 million in FY2016, largely driven by increases in employee costs and strategic investment in propositions and service for members, as well as restructuring costs to drive efficiency and the costs of servicing higher business volumes. Administrative expenses (excluding depreciation, amortisation and impairment) increased by £110 million, or 8 per cent., in FY2016 from £1,412 million in FY2015, also as a result of increases in employee costs and strategic investment spend.

The table below shows the components of administrative expenses for each of FY2017, FY2016 and FY2015.

	FY2017	**FY2016**	**FY2015**
		(*£ millions*)	
Employee costs:			
Salaries, bonuses and social security	656	617	584
Pension	137	119	87
Other administrative expenses	832	786	741
Total administrative expenses	**1,625**	**1,522**	**1,412**

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

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, and since then new employees have been able to join a defined contribution arrangement. The final salary section of the Fund was closed to future service on 31 March 2011. Service already built up in the final salary section will continue to be linked to final salary, while future benefits now accrue within the CARE section.

In FY2017, salaries, bonuses and social security costs increased by £39 million, or 6 per cent., to £656 million from £617 million in FY2016 due to higher costs resulting from enhancements to the Nationwide Group Personal Pension Plan and an increase in employee costs that reflects the impact of annual pay awards averaging 2.1 per cent. and 3.0 per cent., respectively, in FY2017 and FY2016, combined with a 4 per cent. increase in employee numbers year on year. Within employee costs, the pension charge in FY2017 increased by £18 million, or 15 per cent., to £137 million for FY2017 from £119 million for FY2016.

In FY2016, salaries, bonuses and social security costs increased by £33 million, or 6 per cent., from £584 million in FY2015 due to higher costs resulting from enhancements to the Nationwide Group Personal Pension Plan and an increase in employee costs that reflects the impact of annual pay awards averaging 3.0 per cent. and 2.5 per cent., respectively, in FY2016 and FY2015, combined with a 3 per cent. increase in employee numbers year on year. Within employee costs, the pension charge in FY2017 increased by £32 million, or 37 per cent., from £87 million for FY2015.

Other administrative costs increased by £46 million, or 6 per cent., to £832 million for FY2017 from £786 million for FY2016. This increase was due to strategic investment in propositions and services for members, as well as restructuring costs to drive efficiency, and also reflects the costs of servicing higher business volumes.

Other administrative costs increased by £45 million, or 6 per cent., from £741 million for FY2015 for the same reasons. See section 6 (*Costs*) above.

Nationwide's cost income ratio deteriorated on an underlying basis to 60.2 per cent. in FY2017 from 53.9 per cent. in FY2016 and 54.3 per cent. in FY2015 and on a statutory basis to 60.3 per cent. in FY2017 from 54.8 per cent. in FY2016 and 54.3 per cent. in FY2015 as a result of the growth in administrative expenses described above, which reflects Nationwide's focus on improving product propositions and services for members whilst remaining strong, safe and secure.

Depreciation, amortisation and impairment

For FY2017 depreciation, amortisation and impairment expenses increased by £71 million, or 22 per cent., to £396 million as a consequence of strategic investment in the business and £31 million of impairment charges recognised in the year in respect of certain development work relating to internal systems which has now been superseded. For FY2016 depreciation, amortisation and impairment expenses increased by £31 million, or 11 per cent., to £325 million, also as a result of strategic investment in the business.

Impairment losses on loans and advances to customers

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 assets is impaired. Evidence of impairment may include indications that a borrower or group of borrowers is experiencing significant financial difficulty or default or delinquency in interest or principal payments.

Impairment losses on loans and advances to customers for FY2017 increased by £50 million, or 62 per cent., to £131 million from £81 million for FY2016, driven by additional residential mortgage impairments as a result of enhancements to Nationwide's credit loss provisioning methodology, combined with lower levels of net recoveries in the CRE portfolio. Impairment losses on loans and advances to customers for FY2016 decreased by £152 million, or 65 per cent., from £233 million for FY2015, primarily as a result of an improvement in asset quality and a decline in Nationwide's CRE portfolio.

The table below analyses the impairment losses on loans and advances to customers for each of FY2017, FY2016 and FY2015.

	FY2017	**FY2016**	**FY2015**
		(*£ millions*)	
Residential mortgages	58	18	58
Consumer banking	78	96	89
Commercial lending	(5)	(34)	52
Other lending	—	1	34
Total impairment losses on loans and advances to customers	**131**	**81**	**233**

Residential lending impairment charges were £58 million in FY2017, £18 million in FY2016 and £58 million in FY2015. These charges include £45 million in FY2017, £27 million in FY2016 and £44 million in FY2015 as a result of enhancements to the provisioning methodology and assumptions to ensure provisions continue to reflect appropriately the incurred losses within each portfolio. These enhancements reflect the extended period for arrears to arise from trigger events, the risks associated with the ability of borrowers to repay capital balances at the maturity of interest only loans and the impact of the prolonged low interest rate environment. Excluding these assumption changes, the underlying impairment charges were £13 million in FY2017, a £9 million release in FY2016 and £14 million in FY2015. In FY2017, the increase reflects the stabilisation of mortgage arrears at 0.45 per cent. in FY2017 and more modest benefits from house price inflation and in FY2016 the decrease reflects a fall in mortgage arrears from 0.49 per cent. in FY2015 to 0.45 per cent. in FY2016.

In each of FY2017 and FY2016, there were net reversals of provisions in relation to commercial lending. Commercial lending impairments and reversals relate exclusively to CRE lending, with no arrears in Nationwide's other commercial lending portfolios. The net impairment reversal of £5 million in FY2017 and £34 million in FY2016 are a result of continued CRE market improvements in terms of both asset values and liquidity.

Consumer banking impairment charges decreased by £18 million in FY2017 to £78 million from £96 million in FY2016. Of this charge, £7 million in FY2017 represents a reassessment of impairment assumptions to reflect latent risks during the current low interest rate environment. Excluding this, the consumer banking charge remained relatively consistent in FY2017 and FY2016, reflecting both stable arrears performance and gross lending balances. Consumer banking impairment charges increased by £7 million in FY2016 from £89 million in FY2015. Of this charge, £29 million in FY2016 represents a reassessment of assumptions embedded within provisioning models to ensure that they remain appropriate in a low interest rate environment. Excluding this, the underlying consumer banking charge decreased by 25 per cent. in FY2016 compared to FY2015, predominantly as a result of improving economic conditions combined with improved credit underwriting for personal loans.

Impairment losses/(recoveries) on investment securities

Impairment losses on investment securities were £9 million in FY2017 and £18 million in FY2015. In FY2016, there was an £8 million impairment recovery on investment securities.

Provisions for liabilities and charges

The table below shows the components of provisions for liabilities and charges for each of FY2017, FY2016 and FY2015.

	FY2017	**FY2016**	**FY2015**
		(£ millions)	
FSCS...	—	46	83
Customer redress provision	136	127	59
Total provisions for liabilities and charges...	**136**	**173**	**142**

There was no net charge for FY2017 in respect of the FSCS. In FY2016 and FY2015, the net charges were £46 million and £83 million, respectively. The lack of a charge in FY2017 reflected the substantial repayment of the loan from HM Treasury to FSCS as a result of the securitisation of Bradford & Bingley plc assets, and Nationwide's £13 million share of recoveries from Icelandic banks. The 45 per cent. reduction in the charge in FY2016 reflected Nationwide's expected share of interest costs in relation to the 2016/17 FSCS scheme year and final confirmation of previous scheme year charges.

Nationwide holds provisions for customer redress to cover the costs of remediation and redress in relation to past sales of financial products and post sales administration, including compliance with consumer credit legislation and other regulatory requirements.

The charge for FY2017 primarily relates to customer redress provisions recognised in respect of PPI and the Plevin case, including the cost of administering these claims. When assessing the adequacy of its PPI provision, Nationwide considered the implications of the guidance published by the FCA in its March 2017 policy statement (PS17/03), including the expected impact of the Plevin case.

The charge for FY2016 includes a £95 million charge in relation to PPI, largely in response to the announcements made by the FCA during FY2016 and specifically the consultation paper CP15/39 issued in November 2015. In this consultation, the FCA proposed an industry-funded communications campaign, combined with a deadline for any further complaints. It also proposed new rules and guidance in light of the

Supreme Court's decision in the Plevin case. The remainder of the charge for FY2016 was in respect of claims relating to consumer credit legislation.

7.4 Profit before tax

Reflecting the above factors, Nationwide's statutory profit before tax was £1,054 million in FY2017, £1,279 million in FY2016 and £1,044 million in FY2015. Excluding FSCS and bank levy charges, transformation costs and losses or gains from derivatives and hedge accounting, Nationwide's underlying profit before tax was £1,030 million in FY2017, £1,337 million in FY2016 and £1,227 million in FY2015.

7.5 Taxation

Nationwide's reported tax charge for FY2017 was £297 million and represented an effective tax rate of 28 per cent., which was higher than the statutory rate in the UK of 20 per cent. The higher effective rate is due principally to the banking surcharge of 8 per cent. which became effective from 1 January 2016 and amounted to £62 million, together with the tax effect of disallowable bank levy and customer redress costs of £8 million and £19 million, respectively.

Nationwide's reported tax charge for FY2016 was £294 million and represented an effective tax rate of 23 per cent., which was higher than the statutory rate in the UK of 20 per cent. The higher effective rate is due principally to the banking surcharge of 8 per cent. which became effective from 1 January 2016 and amounted to £22 million, together with the tax effect of disallowable bank levy and customer redress costs of £8 million and £7 million, respectively.

7.6 Comprehensive income

The table below shows a summary of Nationwide's statement of comprehensive income for each of FY2017, FY2016 and FY 2015.

	FY2017	**FY2016**	**FY2015**
		(£ millions)	
Profit after tax	757	985	839
Items that will not be reclassified to the income statement			
Remeasurements of retirement benefit obligations	(255)	51	(115)
Revaluation of property	3	(3)	6
Other	(1)	(1)	(1)
Items that may subsequently be reclassified to the income statement			
Cash flow hedge reserve	(247)	301	129
Available for sale reserve	52	(34)	77
Other comprehensive (expense)/income	**(448)**	**314**	**96**
Total comprehensive income	**309**	**1,299**	**935**

Nationwide's total comprehensive income in FY2017 was £309 million compared to £1,299 million in FY2016 and £935 million in FY2015.

In FY2017, Nationwide's total comprehensive income principally reflected its £757 million after tax profit for the year plus a £52 million net fair value gain on available for sale investment securities less a £255 million net negative remeasurement of retirement benefit obligations and a £247 million net negative change on its cash flow hedge reserve driven by the impact of rising EURIBOR rates on derivatives used in foreign currency hedges. The remeasurement of pension obligations reflects £1,298 million of actuarial losses partly offset by £951 million of positive movements in the Fund's assets greater than the discount rate.

In FY2016, Nationwide's total comprehensive income principally reflected its £985 million after tax profit for the year plus a £301 million net positive change on its cash flow hedge reserve driven by the impact of falling EURIBOR rates on derivatives used in foreign currency hedges and a £51 million actuarial gain on retirement benefit obligations which was partially offset by its £34 million net fair value loss on available for sale investments.

The changes in the fair value of Nationwide's available for sale investments principally reflect changes in the market valuations of debt securities.

8. SEGMENTAL ANALYSIS

For management reporting purposes, Nationwide is organised into three business streams which reflect how management assesses performance and makes decisions on allocating resources to the business:

- **Retail** – which includes prime residential lending, specialist residential lending, consumer banking, savings, 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, including CRE lending, RSL lending and PFI lending.

- **Head Office Functions** – which comprises Treasury operational activities, head office and central support functions, commercial deposits received and managed by the Treasury function and the result arising from the funds transfer pricing methodology relating to the funding of the other two segments. Head office and central support functions include executive management, legal and secretariat services, human resources, strategic planning and external relations, finance, risk management, property services and internal audit. Certain interest costs and centralised administrative expenses are not allocated to other segments and are held centrally within the Head Office Functions reporting segment.

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 margins and net interest receivable. Nationwide's methodology is to determine a single cost of funds, representing the weighted average marginal cost of retail and wholesale funding, which is allocated across the Group and is reviewed monthly to ensure that the marginal cost of funding, and the relative performance of the different business segments, are based on current market cost of funds. The only exception to this approach is that the transfer price charged to long-term RSL and PFI 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, with the additional interest cost reported within the head office functions reporting segment. All other assets in the commercial segment are charged the marginal weighted average cost of retail and wholesale funding, in line with other assets.

The retail and commercial reporting segments are charged for the benefit of free capital as part of the funds transfer pricing methodology, based upon regulatory capital metrics.

The tables below show Nationwide's segmental results for each of FY2017, FY2016 and FY2015.

FY2017	**Retail**	**Commercial**	**Head Office Functions**	**Total**
			(£ millions)	
Net income/(expense) from external customers..	3,680	403	(1,123)	2,960
Charge/(revenue) from other segments.	(785)	(301)	1,086	—
Net interest income............................	**2,895**	**102**	**(37)**	**2,960**

Other income[1]	335	12	(22)	325
Total revenue	**3,230**	**114**	**(59)**	**3,285**
Administrative expenses[2]	(1,834)	(37)	(108)	(1,979)
Impairment and other provisions[3]	(262)	(5)	(9)	(276)
Underlying profit/(loss) before tax	**1,134**	**72**	**(176)**	**1,030**
Bank levy	—	—	(42)	(42)
Gains from derivatives and hedge accounting	—	—	66	66
Profit/(loss) before tax	**1,134**	**72**	**(152)**	**1,054**
Taxation				(297)
Profit after tax				**757**
Total assets[4]	174,811	12,555	34,304	221,670
Total liabilities	146,918	3,055	60,564	210,537

FY2016	**Retail**	**Commercial**	**Head Office Functions**	**Total**
		(*£ millions*)		
Net income/(expense) from external customers	3,655	454	(1,023)	3,086
Charge/(revenue) from other segments	(634)	(341)	975	—
Net interest income	**3,021**	**113**	**(48)**	**3,086**
Other income[1]	251	12	(16)	247
Total revenue	**3,272**	**125**	**(64)**	**3,333**
Administrative expenses[2]	(1,674)	(41)	(81)	(1,796)
Impairment and other provisions[3]	(241)	34	7	(200)
Underlying profit/(loss) before tax	**1,357**	**118**	**(138)**	**1,337**
FSCS levies	(46)	—	—	(46)
Transformation costs	(1)	—	(9)	(10)
Bank levy	—	—	(41)	(41)
Gains from derivatives and hedge accounting	—	—	39	39
Profit/(loss) before tax	**1,310**	**118**	**(149)**	**1,279**
Taxation				(294)
Profit after tax				**985**
Total assets[4]	165,662	13,138	30,139	208,939
Total liabilities	144,669	2,728	50,612	190,009

FY2015	Retail	Commercial	Head Office Functions	Total
		(*£ millions*)		
Net income/(expense) from external customers	3,324	555	(1,007)	2,872
Charge/(revenue) from other segments	(341)	(443)	784	—
Net interest income	**2,983**	**112**	**(223)**	**2,872**
Other income[(1)]	293	15	(17)	291
Total revenue	**3,276**	**127**	**(240)**	**3,163**
Administrative expenses[(2)]	(1,534)	(52)	(40)	(1,626)
Impairment and other provisions[(3)]	(205)	(54)	(51)	(310)
Underlying profit/(loss) before tax	**1,537**	**21**	**(331)**	**1,227**
FSCS levies	(83)	—	—	(83)
Transformation costs	(32)	—	(20)	(52)
Bank levy	—	—	(28)	(28)
Gains from derivatives and hedge accounting	—	—	(20)	(20)
Profit/(loss) before tax	**1,422**	**21**	**(399)**	**1,044**
Taxation				(205)
Profit after tax				**839**
Total assets[(4)]	156,362	14,272	24,946	195,580
Total liabilities	147,739	1,801	36,299	185,839

Notes:

(1) Other income excludes gains from derivatives and hedge accounting which are shown separately. A gain of £100 million relating to the disposal of an investment in Visa Europe Limited in FY2017 is included in the Retail reporting segment.

(2) Administrative expenses exclude transformation costs and bank levy which are shown separately. Certain centralised costs are not allocated across reporting segments and remain with the Head Office Functions reporting segment.

(3) Impairment and other provisions include impairment losses on loans and advances, provisions for liabilities and charges (excluding FSCS) and impairment loss/recoveries on investment securities.

(4) Retail assets include goodwill arising on the acquisition of The Mortgage Works (UK) plc.

8.1 Retail reporting segment

Total revenue

Total revenue in the retail reporting segment was £3,230 million in FY2017, £42 million, or 1 per cent., lower than the £3,272 million recorded in FY2016. Total revenue in the retail reporting segment was substantially flat in FY2016 compared to the £3,276 million recorded in FY2015.

The decrease in the retail reporting segment's total revenue in FY2017 principally reflects a £126 million fall in net interest income (which is discussed below) and a £84 million increase in other income, principally reflecting the Society's disposal of its interest in Visa Europe Limited.

Although the retail reporting segment's total revenue was flat in FY2016 and FY2015, its net interest income increased by £38 million while its other income fell by £42 million.

Net interest income

Net interest income in the retail reporting segment was £2,895 million in FY2017, £126 million, or 4 per cent., lower than the £3,021 million recorded in FY2016. Net interest income in the retail reporting segment was £38 million, or 1 per cent., higher than the £2,983 million recorded in FY2015.

The decrease in the retail reporting segment's net interest income in FY2017 reflected ongoing competition in the mortgage market and Nationwide's ongoing focus on delivering long-term value to its members, combined with the natural run-off of its BMR and SMR balances.

Underlying profit before tax

Underlying profit before tax in the retail reporting segment was £1,134 million in FY2017, £223 million, or 16 per cent., lower than the £1,357 million profit recorded in FY2016. Underlying profit before tax in the retail reporting segment in FY2016 was £180 million lower than the £1,537 million recorded in FY2015.

In FY2017, the retail reporting segment's administrative expenses increased by £160 million, or 10 per cent. and its impairment and other provisions increased by £21 million, or 9 per cent. In FY2016, the retail reporting segment's administrative expenses increased by £140 million, or 9 per cent. and its impairment and other provisions increased by £36 million, or 18 per cent.

The retail reporting segment's administrative expenses increased in both FY2017 and FY2016 reflecting increases in employee costs and continued strategic investment in Nationwide's business. The increase in impairment and other provisions reflected enhancements to provisioning methodology which were partly offset by house price inflation and, in FY2016, a reduction in mortgage arrears as well increases in provisions for customer redress primarily relating to PPI claims.

8.2 Commercial reporting segment

Total revenue

Total revenue in the commercial reporting segment was £114 million in FY2017, £11 million, or 9 per cent., lower than the £125 million recorded in FY2016. Total revenue in the commercial reporting segment was substantially flat in FY2016 compared to the £127 million recorded in FY2015.

The decrease in the commercial reporting segment's total revenue in FY2017 principally reflects an £11 million fall in net interest income (which is discussed below).

Net interest income

Net interest income in the commercial reporting segment was £102 million in FY2017, £11 million, or 10 per cent., lower than the £113 million recorded in FY2016. Net interest income in the commercial reporting segment was substantially flat in FY2016 compared to the £112 million recorded in FY2015.

The decrease in the commercial reporting segment's net interest income in FY2017 principally reflected a decrease in commercial lending assets as Nationwide continues to run off its commercial lending portfolio.

Underlying profit before tax

Underlying profit before tax in the commercial reporting segment was £72 million in FY2017, £46 million, or 39 per cent., lower than the £118 million profit recorded in FY2016. Underlying profit before tax in the commercial reporting segment in FY2016 was £97 million higher than the £21 million recorded in FY2015.

In FY2017, the commercial reporting segment's administrative expenses fell by £4 million, or 10 per cent., although its impairment and other provisions increased by £39 million. In FY2016, the commercial reporting segment's administrative expenses fell by £11 million, or 21 per cent., and its impairment and other provisions were a release of £34 million compared to a provision of £54 million in FY2015.

The commercial reporting segment's administrative expenses fell in both FY2017 and FY2016 as a result of the reduction in the size of the commercial loan portfolio. The increase in impairment and other provisions in FY2017 principally reflected a minimal charge in FY2017 compared to a large release of provisions in FY2016 as a result of continuing CRE market improvements in terms of both asset values and liquidity.

8.3 Head Office Functions reporting segment

Total revenue

Total revenue in the head office functions reporting segment was negative £59 million in FY2017, negative £64 million in FY2016 and negative £240 million in FY2015.

The improvement in the head office functions reporting segment's total revenue in FY2016 principally reflected a significant improvement in its net interest income (which is discussed below).

Net interest income

Net interest income in the head office functions reporting segment was negative £37 million in FY2017, negative £48 million in FY2016 and negative £223 million in FY2015.

The improvement in the head office functions reporting segment's net interest income in FY2016 related to a reduction in the cost of funding and the result of transfer pricing allocations between segments.

Underlying loss before tax

Underlying loss before tax in the head office functions reporting segment was £176 million in FY2017, £38 million, or 28 per cent., higher than the £138 million loss recorded in FY2016. Underlying loss before tax in the head office functions reporting segment in FY2016 was £193 million lower than the £331 million loss recorded in FY2015.

In FY2017, the head office functions reporting segment's administrative expenses increased by £27 million to £108 million and its impairment and other provisions were £9 million compared to a release of £7 million in FY2016. In FY2016, the head office functions reporting segment's administrative expenses doubled to £81 million from £40 million in FY2105, although its impairment and other provisions were a release of £7 million compared to a provision of £51 million in FY2015.

The head office functions reporting segment's administrative expenses increased in both FY2017 and FY2016 reflecting increases in employee costs and continued strategic investment in Nationwide's business.

9. LIQUIDITY AND FUNDING

9.1 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.

9.2 Analysis of cash flows

The table below summarises Nationwide's statement of cash flows for each of FY2017, FY2016 and FY2015.

	FY2017	FY2016	FY2015
		(£ millions)	
Net cash flows (used in)/generated from operating activities	(172)	(1,276)	987
Net cash flows generated from/(used in) investing activities	922	252	(545)

Net cash flows generated from/(used in) financing activities..	2,430	5,837	(181)
Net increase in cash and cash equivalents	3,180	4,813	261
Cash and cash equivalents at the start of the period..	12,063	7,250	6,989
Cash and cash equivalents at the end of the period..	15,243	12,063	7,250

Operating cash flow

Net cash used in operating activities in FY2017 was £172 million compared to net cash used in operating activities in FY2016 of £1,276 million and net cash generated from operating activities of £987 million in FY2015. 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 and liabilities, non-cash items included in profit before tax and taxation.

Investing cash flow

Net cash generated from investing activities in FY2017 was £922 million compared to net cash generated from investing activities in FY2016 of £252 million and net cash used in investing activities of £545 million in FY2015. Net cash generated from or used in investing activities principally reflects Nationwide's purchases and sales of investment securities during each financial year.

Financing cash flow

Net cash generated from financing activities in FY2017 was £2,430 million compared to net cash generated from financing activities of £5,837 million in FY2016 and net cash used in financing activities of £181 million in FY2015. Net cash generated from or used in financing activities principally reflects increases and decreases in Nationwide's debt securities in issue.

9.3 Liquidity

Liquidity represents a key area of risk management for financial institutions. In recent years there has been an increased focus on liquidity from the regulatory authorities. Nationwide continues to enhance and strengthen its liquidity management systems and approach.

Liquid asset buffer

Nationwide ensures it has sufficient liquid assets, in terms of both amount and quality, to meet daily cash flow needs as well as stressed requirements driven by internal and regulatory liquidity assessments. The composition of the liquid asset buffer (which includes both the on-balance sheet liquidity and investment portfolio and off-balance sheet FLS treasury bills, which amounted to £4.8 billion as at 4 April 2017, and excludes encumbered assets) is subject to limits, set by the Board and the Assets and Liabilities Committee (**ALCO**), in relation to issuer, currency and asset type. Nationwide's liquid assets are held and managed centrally by its Treasury function. Nationwide's liquidity buffer amounted to £27.5 billion as at 4 April 2017, £27.9 billion as at 4 April 2016 and £24.5 billion as at 4 April 2015.

FLS, which provides funding linked to net residential mortgage lending, was closed on 31 January 2014 and Nationwide does not expect to make any further drawings under FLS. As at 4 April 2017, Nationwide had outstanding FLS drawings of £4.8 billion and TFS drawings of £6.0 billion. As at 31 August 2017, Nationwide's TFS drawings were £9.5 billion. TFS is a scheme launched by the BoE in August 2016 within a package of monetary stimulus measures, with the purpose of encouraging lending institutions to pass on base rate cuts, by providing an efficient source of funding.

For a discussion of Nationwide's liquidity and investment portfolio, see section 9.8 (*Treasury assets*) below. This portfolio includes assets that are eligible for central bank operations as well as other securities that can be monetised through repurchase (**repo**) agreements with third parties or through sale. Nationwide undertakes securities financing transactions in the form of repos. This demonstrates the liquid nature of the assets held in its liquid asset buffer and also satisfies regulatory requirements. Cash is borrowed in return for pledging assets as collateral and because settlement is on a simultaneous ‘delivery versus payment’ basis, the main credit risk arises from intra-day changes in the value of the collateral. This is largely mitigated by Nationwide’s collateral management processes. Repo market capacity is assessed and tested regularly to ensure there is sufficient capacity to rapidly monetise the liquid asset buffer in a stress. For contingent purposes, Nationwide also pre-positions unencumbered mortgage assets at the BoE which can be used in the BoE’s liquidity operations if market liquidity is severely disrupted.

Liquidity management

In December 2010, the Basel Committee announced proposals to introduce two new liquidity metrics as part of the implementation of Basel III. These are a short-term liquidity stress metric, the LCR and a longer-term funding metric, the Net Stable Funding Ratio (the **NSFR**).

The LCR became a binding regulation in the European Union in October 2015. In November 2016, the European Commission published draft amendments to the CRR, including its proposed implementation of the NSFR in the European Union. The NSFR will become a binding regulation two years after the European legislation is finalised.

Nationwide monitors its liquidity position relative to internal risk appetite and the LCR. Nationwide’s LCR as at 4 April 2017 was 124.0 per cent. (compared to 142.6 per cent. as at 4 April 2016 and 119.3 per cent. as at 4 April 2015), which reflects Nationwide’s strategy of maintaining a LCR of at least 100 per cent. and represents a surplus to the UK regulatory minimum requirement of 90 per cent., rising to 100 per cent. by January 2018.

Nationwide also monitors its position against the NSFR. Based on current interpretations of regulatory requirements and guidance, Nationwide’s NSFR as at 4 April 2017 was 132.6 per cent. (compared to 127.9 per cent. as at 4 April 2016 and 121.9 per cent. as at 4 April 2015), which exceeds the expected 100 per cent. minimum future requirement.

For an analysis of Nationwide’s gross undiscounted contractual cash flows as at 4 April 2017 and 4 April 2016, see the tables on pages 114 and 115 of Nationwide’s Annual Report and Accounts 2017 which are included in Nationwide’s 2017 Financial Statements which are incorporated by reference in this document. For an analysis of Nationwide’s gross undiscounted contractual cash flows as at 4 April 2015, see the table on pages 161 of Nationwide’s Annual Report and Accounts 2016 which are included in Nationwide’s 2016 Financial Statements which are incorporated by reference in this document.

9.4 Funding strategy

Nationwide’s strategy is to remain predominantly retail funded; retail customer loans and advances are therefore largely funded by customer deposits. Non-retail lending, including treasury assets and commercial customer loans, are largely funded by wholesale debt, as shown in the table below.

	As at 4 April		
	2017	**2016**	**2015**
		(£ billions)	
Liabilities:			
Retail funding	147	145	139
Wholesale funding	56	46	39
Capital and reserves	14	13	12
Other	5	5	6
Total	**222**	**209**	**196**

Assets:			
Retail mortgages	171	162	152
Treasury (including liquidity portfolio)	25	23	19
Other lending	4	4	4
Commercial/other lending	13	13	14
Other assets	9	7	6
Total	**222**	**209**	**196**

9.5 Managing liquidity and funding risk

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 Nationwide to meet financial obligations as they fall due, even during episodes of stress.

This is achieved through the management and stress testing of business cash flows and through translation of Board risk appetite into appropriate risk limits. This ensures that a prudent funding mix and maturity profile, sufficient levels of high quality liquid assets and appropriate encumbrance levels are maintained.

Nationwide's liquidity and funding risk framework is reviewed by the Board as part of the annual internal liquidity adequacy assessment process (**ILAAP**). ALCO is responsible for managing the balance sheet structure, including the funding plan and its risks. This includes setting and monitoring more granular limits within Board limits. A consolidated cash flow forecast is maintained and reviewed weekly to support ALCO in monitoring key risk metrics.

A liquidity contingency plan (**LCP**) is maintained which describes early warning triggers for indicating an emerging liquidity or funding stress as well as escalation procedures and a range of actions that could be taken in response to ensure sufficient liquidity is maintained. The LCP is tested annually to ensure it remains robust. Nationwide also has a recovery plan which describes potential actions that could be utilised in a more extreme stress.

To mitigate liquidity and funding risks generated by its business activities, Nationwide aims to maintain a liquid asset buffer of at least 100 per cent. of the anticipated outflows seen under internal stress test scenarios and the regulatory-prescribed LCR.

Potential contractual and behavioural stress outflows are assessed across a range of liquidity risk drivers over 30 business days, with the key assumptions shown below. A three-month assessment is also performed against which LCP capacity is assessed. Internal stress assumptions are reviewed regularly with changes approved by ALCO, and approved annually by the Board as part of the ILAAP.

Liquidity risk driver	Modelling assumptions used
Retail funding	Significant unexpected outflows are experienced with no new deposits received.
Wholesale funding	Zero rollover of maturing long-term wholesale funding and only partial rollover of certain short-term funding following credit rating downgrades. No new wholesale funding is received.
Off-balance sheet	Contractual outflows occur in relation to secured funding programmes due to credit rating downgrades.
	Lending commitments continue to be met.

	Collateral outflows arise due to adverse movements in market rates.
	Inflows from mortgages or retail and commercial loans are assessed on a behavioural basis.
Intra-day	Liquidity is needed to pre-fund outgoing payments.
Liquid assets	Asset values are reduced in recognition of the stressed conditions assumed.

As at 4 April 2017, potential stressed net outflows under the most severe 30 business day stress test (a combined market-wide and Nationwide-specific stress scenario) were modelled at £22.1 billion (compared to £22.6 billion as at 4 April 2016 and £18.9 billion as at 4 April 2015). The liquid asset buffer as a percentage of stressed net outflows equated to 118 per cent. as at 4 April 2017 (compared to 114 per cent. as at 4 April 2016 and 133 per cent. as at 4 April 2015).

9.6 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 (calculated in accordance with the Act) comprises shares held by individuals.

Nationwide's retail funding is predominantly denominated in pounds sterling and comprises both fixed and variable rate deposits.

The table below shows Nationwide's retail funding by residual maturity as at 4 April in each of 2017, 2016 and 2015.

	As at 4 April		
	2017	**2016**	**2015**
		(*£ billions*)	
Repayable in less than one month	114.2	106.9	101.4
Repayable between one and three months	1.8	2.2	1.9
Repayable between three and 12 months	16.0	17.5	19.4
Repayable between one and five years	13.7	17.2	14.8
Repayable in more than five years	1.2	1.2	0.9
Total retail funding	**146.9**	**144.9**	**138.5**

9.7 Wholesale funding

Nationwide's wholesale funding portfolio is made up of a range of secured and unsecured instruments to ensure that Nationwide has a diversified funding base across a range of instruments, currencies, maturities and investor types. Nationwide's wholesale funding strategy is to remain active in core markets and currencies.

On-balance sheet wholesale funding increased by £9.7 billion to £55.5 billion as at 4 April 2017 from £45.8 billion as at 4 April 2016 and by £6.6 billion as at 4 April 2016 from £39.2 billion as at 4 April 2015. The increase in FY2017 reflected increased collateral inflows following the depreciation of sterling against other major currencies and replacement of FLS maturities with on-balance sheet funding, including £6 billion of TFS drawings. The increase in FY2016 reflected the ongoing management of liquidity and an element of pre-funding of wholesale and FLS maturities to de-risk Nationwide's funding plans ahead of the UK's EU-exit referendum in June 2016.

The tables below analyse 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 4 April in each of 2017, 2016 and 2015.

	As at 4 April		
	2017	**2016**	**2015**
		(*£ billions*)	
Deposits, including PEB balances	9.2	9.7	11.0
Certificates of deposit	5.3	5.1	3.1
Commercial paper	1.8	1.3	2.4
Covered bonds	14.9	13.8	11.3
Medium-term notes	13.7	9.9	5.2
Securitisations	3.5	4.7	4.8
TFS	6.0	—	—
Other	1.1	1.3	1.4
Total wholesale funding	**55.5**	**45.8**	**39.2**

	As at 4 April		
	2017	**2016**	**2015**
		(*per cent.*)	
Deposits, including PEB balances	16	21	28
Certificates of deposit	10	11	8
Commercial paper	3	3	6
Covered bonds	27	30	29
Medium-term notes	25	22	13
Securitisations	6	10	12
TFS	11	—	—
Other	2	3	4
Total wholesale funding	**100**	**100**	**100**

The tables below analyse the currency composition of Nationwide's wholesale funding as at 4 April in each of 2017, 2016 and 2015.

	As at 4 April 2017				
	GBP	**EUR**	**USD**	**Other**	**Total**
			(*£ billions*)		
Deposits, including PEB balances	7.7	1.4	0.1	—	9.2
Certificates of deposit	5.3	—	—	—	5.3
Commercial paper	—	—	1.8	—	1.8
Covered bonds	3.3.	11.4	—	0.2	14.9
Medium-term notes	3.1	6.2	3.6	0.8	13.7
Securitisations	0.9	1.2	1.4	—	3.5
TFS	6.0	—	—	—	6.0

Other	0.3	0.8	—	—	1.1
Total wholesale funding	**26.6**	**21.0**	**6.9**	**1.0**	**55.5**

	As at 4 April 2016				
	GBP	**EUR**	**USD**	**Other**	**Total**
			(£ billions)		
Deposits, including PEB balances	9.0	0.5	0.2	—	9.7
Certificates of deposit	4.7	—	0.4	—	5.1
Commercial paper	0.2	—	1.1	—	1.3
Covered bonds	2.5	11.1	—	0.2	13.8
Medium-term notes	2.3	4.8	2.2	0.6	9.9
Securitisations	1.9	1.2	1.6	—	4.7
Other	0.2	1.0	0.1	—	1.3
Total wholesale funding	**20.8**	**18.6**	**5.6**	**0.8**	**45.8**

	As at 4 April 2015				
	GBP	**EUR**	**USD**	**Other**	**Total**
			(£ billions)		
Deposits, including PEB balances	10.1	0.6	0.3	—	11.0
Certificates of deposit	2.9	0.1	0.1	—	3.1
Commercial paper	0.1	0.6	1.7	—	2.4
Covered bonds	1.8	9.4	—	0.1	11.3
Medium-term notes	1.2	2.4	1.4	0.2	5.2
Securitisations	1.7	1.3	1.8	—	4.8
Other	0.3	1.0	0.1	—	1.4
Total wholesale funding	**18.1**	**15.4**	**5.4**	**0.3**	**39.2**

To mitigate against cross-currency refinancing risk, Nationwide ensures that it holds liquidity in each currency to cover at least the next ten business days of wholesale funding maturities.

As at 4 April 2017, cash, government bonds and supranational bonds included in the liquid asset buffer, including FLS treasury bills, represented 129 per cent. (compared to 128 per cent. as at 4 April 2016 and 107 per cent. as at 4 April 2015) of wholesale funding maturing in less than one year, assuming no rollovers.

The proportion of on-balance sheet funding with more than one year to maturity, which excludes the off-balance sheet FLS drawings, as at 4 April 2017 was 65.6 per cent. compared to 59.0 per cent. as at 4 April 2016 and 53.3 per cent. as at 4 April 2015. FLS drawings are held off balance sheet and have a maximum maturity of four years.

The tables below shows the residual maturity of the wholesale funding book, on a contractual maturity basis, as at 4 April in each of 2017, 2016 and 2015.

	As at 4 April		
	2017	2016	2015
	(*£ billions*)		
Less than one year	19.1	18.8	18.3
One to two years	3.2	3.0	3.6
Over two years	33.2	24.0	17.3
Total	**55.5**	**45.8**	**39.2**
	(*per cent.*)		
Less than one year	34.4	41.0	46.7
One to two years	5.8	6.6	1.5
Two to five years	59.8	52.4	44.1
Total	**100.0**	**100.0**	**100.0**

The table below shows a more detailed breakdown of the residual maturity, on a contractual maturity basis, on the wholesale funding book as at 4 April 2017.

	As at 4 April 2017							
	Less than one month	**Over one month but less than three months**	**Over three months but less than six months**	**Over six months but less than one year**	**Sub-total one year or less**	**Over one year but less than two years**	**Over two years**	**Total**
	(*£ billions, except percentages*)							
Deposits, including PEB balances	5.3	1.3	2.0	0.6	**9.2**	—	—	**9.2**
Certificates of deposit	0.4	1.7	2.4	0.8	**5.3**	—	—	**5.3**
Commercial paper	0.5	0.6	0.6	0.1	**1.8**	—	—	**1.8**
Covered bonds	—	—	0.8	—	**0.8**	0.8	13.3	**14.9**
Medium term notes	—	—	0.1	1.2	**1.3**	1.8	10.6	**13.7**
Securitisations	0.3	—	0.3	0.1	**0.7**	0.6	2.2	**3.5**
TFS	—	—	—	—	**—**	—	6.0	**6.0**
Other	—	—	—	—	**—**	—	1.1	**1.1**
Total	**6.5**	**3.6**	**6.2**	**2.8**	**19.1**	**3.2**	**33.2**	**55.5**
Of which secured	0.3	—	1.1	0.1	**1.5**	1.4	22.4	**23.5**
Of which unsecured	6.2	3.6	5.1	2.7	**17.6**	1.8	10.8	**30.2**
% of total	**11.7%**	**6.5%**	**11.2%**	**5.0%**	**34.4%**	**5.8%**	**59.8%**	**100.0%**

External credit ratings

The table below summarises Nationwide's ratings from the major credit rating agencies as at the date of this document.

	Long-term	**Short-term**	**Tier 2**	**Date of last rating action**
S&P[(1)]	A	A-1	BBB	August 2017
Moody's[(2)]	Aa3	P-1	Baa1	August 2017
Fitch[(3)]	A+	F-1	A-	February 2017

———

Notes:
(1) The outlook for S&P is Negative.
(2) The outlook for Moody's is Stable.
(3) The outlook for Fitch is Stable.

Rating actions since FY2015

In January 2016, S&P affirmed Nationwide's long-term and short-term ratings with a stable outlook.

In February 2016, Moody's affirmed Nationwide's long-term and short-term ratings and changed the outlook to positive from stable, reflecting the potential for increased senior and subordinated debt issuance to result in lower expected loss levels for Nationwide's deposits and senior unsecured debt.

In May 2016, Fitch revised Nationwide's outlook to positive from stable reflecting the potential for increased subordinated debt issuance leading to lower than expected losses for the Society's deposits and senior unsecured debt.

In June 2016, Moody's upgraded Nationwide's deposit and senior unsecured ratings to Aa3 from A1. This reflected the benefit of the recent issuance of senior unsecured debt leading to improved loss absorbency.

In June 2016 and July 2016, respectively, Moody's and S&P changed the outlook on their ratings of Nationwide to negative, as part of a sector wide action involving all UK banks and building societies following the EU referendum.

In January 2017, both S&P and Moody's affirmed their long-term and short-term ratings and left their negative outlook on Nationwide's long-term rating unchanged. This negative outlook is part of a sector wide action involving all UK banks and building societies.

In February 2017, Fitch upgraded Nationwide's long-term deposits and senior unsecured debt to A+ from A. The one notch upgrade was made to reflect Fitch's view that Nationwide's qualifying junior debt buffer is now sufficiently large to provide protection for senior unsecured creditors in case of the Society's failure.

In July 2017, S&P added an under criteria observation (**UCO**) designation to its ratings on Nationwide after updating its risk-adjusted capital framework criteria. On 14 August 2017, S&P affirmed its 'A/A-1' credit ratings on Nationwide and removed the UCO designation. The outlook remains negative.

In August 2017, Moody's changed the outlook on Nationwide's deposit and senior unsecured ratings to stable from negative and affirmed the baseline credit assessment and all of Nationwide's ratings. The outlook change reflected Moody's expectation of a moderate deterioration in the operating environment in the UK, to which Nationwide is now more resilient.

The table below shows the amount of additional collateral Nationwide would need to provide in the event of a one and two notch downgrade by external credit rating agencies.

	Cumulative adjustment for a one notch downgrade	**Cumulative adjustment for a two notch downgrade**
	(*£ billions*)	
2017	3.3	3.7
2016	4.1	4.5
2015	3.8	4.2

The contractually required cash outflow would not necessarily match the actual cash outflow as a result of management actions that could be taken to reduce the impact of the downgrades.

9.8 Treasury assets

Liquidity and investment portfolio

Nationwide's liquidity and investment portfolio held on the balance sheet was £25.4 billion as at 4 April 2017, £23.1 billion as at 4 April 2016 and £18.8 billion as at 4 April 2015. The portfolio comprises liquid assets and other securities.

The portfolio's liquid assets comprise cash held at central banks, highly rated debt securities issued by a limited range of government and multi-lateral development banks (referred to as supranationals) and government guaranteed agencies. In addition, the portfolio comprises highly rated liquid assets (covered bonds, RMBS and asset-backed securities) that are eligible for accessing central bank funding operations. The other securities are available for sale investment securities. Movements in the portfolio reflect legacy asset disposals, market prices and Nationwide's operational and strategic liquidity requirements.

Nationwide's Treasury Credit Policy ensures all credit risk exposures align to the Board's risk appetite with investments restricted to low risk assets and proven market counterparties.

The tables below analyse the on-balance sheet liquidity and investment portfolio by credit rating and geographical location of the issuers as at 4 April 2017.

	As at 4 April 2017				
Credit rating[1]		**AAA**	**AA**	**A**	**Other**
	(*£ millions*)	(*per cent.*)			
Liquid assets					
Cash and reserves at central banks[2]	13,017	—	90	—	10
Government bonds[2]	6,438	10	90	—	—
Supranational bonds	459	88	12	—	—
Covered bonds	931	100	—	—	—
RMBS	922	100	—	—	—
Asset-backed securities (other)	285	100	—	—	—
Liquidity assets total	**22,052**	**14**	**80**	**—**	**6**
Other securities					
RMBS[3]	288	27	3	70	—
CMBS	11	—	38	24	38
Collateralised loan obligations	226	86	14	—	—
Student loans[2]	120	48	52	—	—
Other investments	151	—	32	28	40
Other securities total	**796**	**42**	**19**	**31**	**8**
Loans and advances to banks[4]	2,587	—	47	51	2
Total	**25,435**	**14**	**74**	**6**	**6**

	As at 4 April 2017				
Geography		**UK**	**US**	**Europe**	**Other**
	(*£ millions*)	(*per cent.*)			
Liquid assets					
Cash and reserves at central banks(2)	13,017	90	—	10	—
Government bonds(2)	6,438	78	9	13	
Supranational bonds	459	—	—	—	100
Covered bonds	931	51	—	33	16
RMBS	922	61	—	39	—
Asset-backed securities (other)	285	83	—	17	—
Liquidity assets total	**22,052**	**81**	**3**	**13**	**3**
Other securities					
RMBS(3)	288	98	—	2	—
CMBS	11	38	62	—	—
Collateralised loan obligations	226	88	12	—	—
Student loans(2)	120	—	100	—	—
Other investments	151	44	24	32	—
Other securities total	**796**	**69**	**24**	**7**	**—**
Loans and advances to banks(4)	2,587	70	18	10	2
Total	**25,435**	**80**	**5**	**12**	**3**

Notes:

(1) Ratings used are obtained from S&P, and from Moody's if no S&P rating is available. Internal ratings are used if neither is available.

(2) The UK's credit rating was downgraded from AAA to AA by S&P in June 2016, impacting the ratings for cash and government bonds.

(3) Loans and advances to banks includes derivative collateral and reverse repo balances.

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

As at 4 April 2017, 14 per cent. of investments were rated at AAA (compared to 79 per cent. as at 4 April 2016). The principal reason for the deterioration was that the UK's credit rating was downgraded from AAA to AA by S&P in June 2016, impacting the ratings for cash and government bonds. Liquid assets exposure made up 87 per cent. of the total portfolios as at 4 April 2017 (compared to 79 per cent. as at 4 April 2016).

A monthly review of the current and expected future performance of all treasury assets is undertaken, with regular independent review, underpinned by robust risk reporting and performance metrics, to measure, mitigate and manage credit risk. In accordance with accounting standards, assets are impaired where there is objective evidence that current events or performance will result in a loss. In assessing impairment, Nationwide evaluates, among other factors, normal volatility in valuation, evidence of deterioration in the financial health of the obligor, industry and sector performance and underlying cash flows.

Collateral held as security for treasury assets is determined by the nature of the instrument. Assets in the Treasury liquidity and investment portfolio are generally unsecured with the exception of reverse repos, asset-backed securities and similar instruments, which are secured by pools of financial assets.

Available for sale reserve

Nationwide's on-balance sheet liquidity and investment portfolio was £25.4 billion as at 4 April 2017 (compared to £23.1 billion as at 4 April and £18.7 billion as at 4 April 2015) and included £9.8 billion held as AFS (4 April 2016: £10.7 billion and 4 April 2015: £11.1 billion). Under IFRS these items are marked to market through other comprehensive income and fair value movements are accumulated in reserves. Of the AFS assets, £66 million as at 4 April 2017 (4 April 2016: £125 million and 4 April 2015: £12 million) were classified as Level 3 (valuation not based on observable market data) for the purposes of IFRS 13. The decrease as at 4 April 2017 was primarily due to the disposal of Nationwide's interest in Visa Europe, partly offset by the acquisition of preference shares in Visa Inc. The increase as at 4 April 2016 was primarily caused by an £81 million gain connected with the impending disposal of Visa Europe. Details of fair value movements can be found in the notes to the Consolidated Historical Financial Statements incorporated by reference in this document.

As at 4 April 2017, the balance on the AFS reserve had moved to a £44 million gain, net of tax (compared to an £8 million loss as at 4 April 2016 and a £26 million gain as at 4 April 2015). The movements in the AFS reserve reflect general market movements and the disposal of legacy assets. The fair value movement of AFS assets that are not impaired has no effect on Nationwide's profit.

The table below shows the breakdown of Nationwide's AFS reserves as at 4 April in each of 2017 and 2016.

	As at 4 April			
	2017		**2016**	
	Fair value on-balance sheet	**Cumulative AFS reserve**	**Fair value on-balance sheet**	**Cumulative AFS reserve**
	(£ billions)			
Liquid assets				
Cash and reserves at central banks	13.0	—	8.8	—
Government bonds	6.4	(0.4)	6.3	(0.4)
Supranational bonds	0.5	—	0.5	—
Covered bonds	0.9	—	1.0	(0.0)
RMBS	0.9	—	1.1	0.0
Asset backed securities (other)	0.3	—	0.3	—
Liquid assets total	**22.1**	**0.4**	**18.0**	**(0.4)**
Other securities				
RMBS	0.3	—	0.6	—
CMBS	—	—	—	—
CLOs	0.2	—	—	—
Covered bonds	—	—	0.5	—
Student loans	0.1	—	0.1	—
Other investments	0.2	—	0.2	(0.1)
Total other securities	**0.8**	**—**	**1.5**	**(0.0)**
Loans and advances to banks	2.6	—	3.6	—
Total	**25.4**	**(0.4)**	**23.1**	**(0.5)**
AFS reserve before hedge accounting and taxation	—	(0.4)	—	(0.5)

Hedge accounting adjustment for interest rate risk	—	0.4	—	0.5
Taxation	—	—	—	—
AFS reserve (net)	**—**	**—**	**—**	**—**

For further information on the different portfolios, see notes 24 to 26 to the 2017 Financial Statements and notes 22 to 24 to the 2016 Financial Statements incorporated by reference in this document.

Asset encumbrance

Asset encumbrance arises where assets are pledged as collateral against secured funding and other collateralised obligations and therefore cannot be used for other purposes. The majority of asset encumbrance arises from the use of prime mortgage pools to collateralise Nationwide's issues of covered bonds and securities under its RMBS programme and from participation in the FLS and TFS. Encumbrance also results from repurchase transactions, voluntary excess collateral balances, participation in payment schemes and collateral posted for derivative margin requirements. Assets that have been used for any of these purposes cannot be utilised for other purposes and are classified as encumbered.

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

For a breakdown of Nationwide's asset encumbrance as at 4 April 2017 and 4 April 2016, see the tables on page 116 of Nationwide's Annual Report and Accounts 2017 which are incorporated by reference in this document. For a breakdown of Nationwide's asset encumbrance as at 4 April 2015, see the table on page 163 of Nationwide's Annual Report and Accounts 2016 which is incorporated by reference in this document.

10. LENDING AND CAPITAL ADEQUACY

For an analysis of Nationwide's lending portfolios, see sections 5 (*Lending and loan portfolios*) and 6 (*Country section*) of "*Part XVII: Selected Statistical Information*".

For an analysis of Nationwide's capital adequacy, see "*Part XVI: Capital Adequacy*"

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, deposits by other financial institutions and debt securities in issue and derivative financial instruments, see notes 31 and 32 to the 2017 Financial Statements incorporated by reference in this document.

12. OFF-BALANCE SHEET ARRANGEMENTS

For a description of Nationwide's off-balance sheet commitment items under IFRS, see note 32 to the 2017 Financial Statements incorporated by reference in this document.

13. RELATED PARTY TRANSACTIONS

For a description of Nationwide's related party transactions, see note 38 to the 2017 Financial Statements incorporated by reference in this document.

14. ACCOUNTING POLICIES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES AND CRITICAL ACCOUNTING ESTIMATES

For details on Nationwide's accounting policies under IFRS and its judgements in applying the accounting policies and critical accounting estimates, see notes 1 and 2 to the 2017 Financial Statements incorporated by reference herein.

IFRS 9: Financial Instruments

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

IFRS 9 will be implemented for the Group's financial year ending 4 April 2019. The Group is currently assessing the impact of the adoption of IFRS 9 upon its financial position. The impact of classification and measurement changes is not expected to be significant. The impact of impairment requirements is uncertain at this stage and will be quantified once models and systems allow the Group to provide reliable estimates; at this stage, Nationwide's expectation is that IFRS 9 will lead to an increase in provisions held. IFRS 9 is required to be applied retrospectively, but prior periods need not be restated.

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

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

A key requirement of IFRS 9 compared with the existing provision approach under IAS 39 relates to assets where there has been a significant increase in credit risk since the date of origination. Provisions will be made for those assets expected to default at any point over their lifetime reflecting the asset's full expected loss. This change to lifetime loss provisions for significantly credit deteriorated assets is expected to lead to increases in impairment provisions, and to increased volatility in provisions, although the size of the change will depend on a number of factors, including the composition of asset portfolios and the view of the economic outlook at the date of implementation and therefore requires considerable management judgement. For assets where there is evidence of credit impairment, provisions will be made under IFRS 9 on the basis of lifetime ECLs, taking account of forward looking economic assumptions and a range of possible outcomes. See "*Changes in Nationwide's accounting policies or in accounting standards could materially affect how it reports its financial condition and results of operations*" in section 1 (*Risks relating to Nationwide's Business*) in "*Part II: Risk Factors*".

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

15. DISCLOSURES ABOUT RISK

For a discussion of Nationwide's risk management activities, see "*Part XVIII: Risk Management*".

PART XVI – CAPITAL ADEQUACY

OVERVIEW

Capital is held by Nationwide to protect its depositors, to cover its inherent risks, to 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 in the context of the material risks to which the Group is exposed and the appropriate strategies required to manage those risks.

As part of the risk appetite framework, Nationwide manages its capital structure to ensure it continues to exceed minimum regulatory requirements, as well as meeting the expectations of other key stakeholders.

Any planned changes to the balance sheet, potential regulatory developments and other factors (such as trading outlook, movements in the available for sale reserve and pension deficit) are all considered. Nationwide's current strategic capital target is to maintain a UK leverage ratio in excess of 4.0 per cent., and this is subject to periodic review in line with current and anticipated regulatory and economic requirements.

The capital strategy is to manage capital ratios through retained earnings, supplemented by external capital where appropriate. With general reserves forming the majority of capital resources, profitability is an important factor when considering the ability to meet capital requirements. A return on capital framework is in place, based upon an allocation of overall capital requirements, which is part of the performance monitoring activity for individual product segments. In recent years, Nationwide's ability to supplement retained earnings through the issuance of CET1, Additional Tier 1 and Tier 2 capital instruments has been demonstrated, and its non-core portfolios have been significantly deleveraged.

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

CAPITAL POSITION

Nationwide's key capital measures at 4 April in each of 2017, 2016 and 2015 are summarised in the table below.

	As at 4 April		
	2017	**2016**	**2015**
	(£ millions, except percentages)		
Solvency ratios(1)			
CET1 ratio	25.4%	23.2%	19.8%
Total tier 1 ratio	28.4%	26.1%	22.5%
Total regulatory capital ratio	36.1%	30.9%	27.0%
Leverage			
UK leverage exposure(2)	215,894	204,346	
CRR leverage exposure(3)	228,428	213,181	200,665
Total tier 1 capital	9,547	9,005	8,271
UK leverage ratio	4.4%	4.4%	
CRR leverage ratio	4.2%	4.2%	4.1%

Notes:

(1) Nationwide's solvency ratios are calculated under CRD IV on an end point basis.

(2) Nationwide's CRR leverage ratio is calculated using the CRR definition of Tier 1 for the capital amount and the delegated act definition of the exposure measure and reported on an end point basis.

(3) Nationwide's UK leverage ratio is calculated using the CRR definition of Tier 1 for the capital amount and the delegated act definition of the exposure measure, excluding eligible central bank reserves, and reported on an end point basis.

Nationwide's capital and leverage ratios increased in the financial year ended 4 April 2016 mainly as a result of a strong trading performance with £985 million of profit after tax for the year and a reduction in risk weighted assets of £2.3 billion.

Nationwide's capital ratios increased in the financial year ended 4 April 2017 mainly as a result of a strong trading performance with £757 million profit after tax for the year and a reduction in risk weighted assets of £0.8 billion. Nationwide's total capital ratio increased to 36.1 per cent. from 30.9 per cent. in the financial year ended 4 April 2016 due to the increase in profits and the issuance of US$1.25 billion of qualifying Tier 2 subordinated debt.

The total exposure used to calculate the CRR leverage ratio, which consists of balance sheet assets, off-balance sheet items and other regulatory adjustments, increased by £12.5 billion in the financial year ended 4 April 2016 to £213.2 billion as at 4 April 2016 and by £15.2 billion in the financial year ended 4 April 2017 to £228.4 billion as at 4 April 2017. Nationwide's balance sheet assets grew by £13.4 billion in the financial year ended 4 April 2016 to £208.9 billion as at 4 April 2016, mainly driven by increases in mortgage balances, together with higher deposits with central banks held for liquidity purposes as a result of the Group's pre-funding of wholesale maturities ahead of the EU referendum. In the financial year ended 4 April 2017, Nationwide's balance sheet assets grew by £12.7 billion to £222 billion as at 4 April 2017, mainly driven by increases in mortgage balances.

Nationwide has been granted permission to report a UK leverage ratio on the basis of measures announced by the PRA in August 2016, which excludes eligible central bank reserves from the measure of banks' exposures used to assess their leverage. This change was designed to avoid the FPC's leverage standards impeding the transmission of monetary policy. At that time, the FPC noted that it intended to introduce an off-setting adjustment to ensure that the resilience standard of the leverage requirements was maintained. On 27 June 2017, the FPC and the PRA launched a consultation on proposals to increase the minimum leverage ratio from 3.0 per cent. to 3.25 per cent. of exposures (excluding central bank reserve exposures), with responses requested by 12 September 2017.

Nationwide's UK leverage ratio was 4.4 per cent. at 4 April 2017 and at 4 April 2016. The ratio remained stable as profits broadly offset increases in both the defined benefit pension deficit and the increase in UK leverage exposure, which was mainly driven by higher mortgage balances.

Nationwide's CRR leverage ratio was 4.2 per cent. at 4 April 2017 and at 4 April 2016 as profits broadly offset the increase in the pension deficit and the higher CRR leverage exposure, which was driven by increased mortgage balances and liquid assets.

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

TOTAL REGULATORY CAPITAL

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

	As at 4 April		
	2017	2016	2015
		(*£ millions*)	
General reserve[1]	9,316	8,921	7,995
CCDS	531	531	531
Revaluation reserve	67	64	68
Available for sale reserve	44	(8)	26
Foreseeable distributions[2]	(43)	(42)	(44)
Regulatory adjustments and deductions:			
Prudent valuation adjustment[3]	(23)	(55)	(1)
Own credit and debit valuation adjustments[4]	—	(2)	(11)
Intangible assets[5]	(1,174)	(1,120)	(982)
Goodwill[5]	(12)	(12)	(12)
Excess of regulatory expected losses over impairment provisions[6]	(151)	(264)	(291)
Total regulatory adjustments and deductions	(1,360)	(1,453)	(1,297)
Common equity tier 1 capital	**8,555**	**8,013**	**7,279**
Additional tier 1 capital securities	992	992	992
Total tier 1 capital	**9,547**	**9,005**	**8,271**
Dated subordinated debt[7]	2,555	1,628	1,653
Collectively assessed impairment allowances	27	21	26
Tier 2 capital	**2,582**	**1,649**	**1,679**
Total regulatory capital	**12,129**	**10,654**	**9,950**

Notes:

(1) The general reserve includes independently verified profits for the year to 4 April 2017.

(2) Foreseeable distributions in respect of CCDS and AT1 securities are deducted from CET1 capital under CRD IV.

(3) A prudent valuation adjustment is applied in respect of fair valued instruments as required under regulatory capital rules. Following publication of the PVA Regulatory Technical Standard in January 2016, this revised methodology was applied for April 2016 reporting which accounts for the increase.

(4) Own credit and debit valuation adjustments are applied to remove balance sheet gains or losses of fair valued liabilities and derivatives that result from changes in the Group's own credit standing and risk, in accordance with CRD IV rules.

(5) Intangible assets and goodwill do not qualify as capital for regulatory purposes.

(6) Under CRD IV the net regulatory capital expected loss in excess of accounting provisions is deducted from CET1 capital, gross of tax.

(7) Subordinated debt includes fair value adjustments related to changes in market interest rates, adjustments for unamortised premiums and discounts that are included in the consolidated balance sheet, and any amortisation of the capital value of Tier 2 instruments required by regulatory rules for instruments with less than five years to maturity. It does not include instruments that are subject to CRD IV grandfathering provisions, as this table is presented on an end point basis.

Nationwide's CET1 capital increased from £7.3 billion as at 4 April 2015 to £8.0 billion as at 4 April 2016 primarily due to increased retained earnings, driven by a strong trading performance for the year and a reduction in the pension deficit. This was partly offset by an increase in intangible assets and the prudent valuation adjustment as well as a reduction in the value of the available for sale reserve. The increases in total Tier 1 capital and total regulatory capital include the increase in CET1 resources, offset at a total regulatory capital level by a reduction in Tier 2 capital, due to amortisation of subordinated debt.

Nationwide's CET1 capital increased from £8.0 billion as at 4 April 2016 to £8.6 billion as at 4 April 2017 primarily due to retained earnings, mainly reflecting profit after tax for the period of £757 million, offset by an increase in the defined benefit pension deficit which reduced the general reserve by £255 million.

The excess of expected losses over provisions in the financial year ended 4 April 2017 was also lower due to reduced regulatory expected losses, mainly a result of the continued run-off of the commercial book. RWAs reduced by approximately £2.3 billion in the financial year ended 4 April 2016 and by approximately £0.8 billion in the financial year ended 4 April 2017, as discussed under "*RWAs*" below.

The movements described above resulted in the increases in Nationwide's CET1 ratio from 19.8 per cent. as at 4 April 2015 to 23.2 per cent. as at 4 April 2016 and 25.4 per cent. as at 4 April 2017.

Nationwide's Tier 2 capital increased as at 4 April 2017, in line with plans to meet pending Minimum Requirement for Own Funds and Eligible Liabilities (**MREL**) requirements, following the issuance of US$1.25 billion of qualifying Tier 2 subordinated debt. See further "*Regulatory developments*" below.

Nationwide expects to be subject to an MREL requirement of twice its minimum leverage ratio requirement plus the relevant buffer requirements from 1 January 2020. The Bank of England gave the Society an indicative MREL requirement of 6 per cent. of its UK leverage exposure plus buffers, however the FPC has since proposed changes to the UK leverage ratio framework which could result in a higher requirement. The Society currently expects that the leverage-based MREL requirement from 1 January 2020 will be its binding MREL constraint when compared with an anticipated risk-based MREL requirement of 22.9 per cent. of RWAs. The Society currently expects to seek to meet its 2020 requirement through the issuance of MREL-compliant debt securities, with an estimated gross issuance requirement of approximately £5 billion ahead of the 1 January 2020 implementation date.

RWAs

The table below shows the composition of Nationwide's RWAs at 4 April in each of 2017, 2016 and 2015.

	As at 4 April		
	2017	**2016**	**2015**
		(*£ millions*)	
Credit risk			
Retail mortgages	13,863	14,086	14,372
Retail unsecured lending	5,641	5,621	7,023
Commercial loans	5,636	6,194	7,646
Treasury	849	1,039	1,375
Counterparty credit risk(1)	1,221	1,296	826
Other(2)	1,566	1,635	1,334
Total credit risk	**28,776**	**29,871**	**32,576**
Operational risk	4,865	4,604	4,228
Market risk(3)	—	—	—
Total RWA	**33,641**	**34,475**	**36,804**

Notes:
(1) Counterparty credit risk relates to derivative financial instruments and repurchase agreements.

(2) Other relates to fixed and other assets held on the balance sheet, including investments in equity shares.
(3) This has been set to zero in each year, as permitted by the CRR, as the exposure was below the threshold of 2 per cent. of own funds.

In the financial year ended 4 April 2016, RWAs decreased by £2.3 billion to £34.5 billion as at 4 April 2016. This principally reflected:

- a £1.5 billion decrease in commercial RWAs as a result of the continued run-off of the commercial book and improvements in the credit quality of the remaining exposures; and

- £1.4 billion decrease in RWAs for the retail unsecured portfolios following the implementation of a redeveloped Internal Ratings Based (**IRB**) model for personal loans, to reflect better the risk in the portfolio.

Credit risk RWAs were also further reduced by an improvement in credit quality, notably in specialist mortgage lending, due to the increase in house prices, which more than offset the RWA increase from the portfolio growth. Treasury RWAs decreased due to a reduction in exposures to other banks and securitisation assets.

RWAs for counterparty credit risk increased as a result of higher derivative values. Other RWAs increased mainly due to an increase in the value of the Visa Europe Limited equity holding. Operational risk RWAs, calculated on the standardised approach, increased due to higher income.

In the financial year ended 4 April 2017, RWAs decreased by £0.8 billion to £33.6 billion as at 4 April 2017. This principally reflected:

- a £558 million decrease in commercial RWAs as a result of the continued run-off of the commercial book and improvements in the credit quality of the remaining exposures; and

- a £223 million decrease in RWAs for the residential mortgage portfolio as the impact of rising house prices outweighed increasing mortgage balances; and

- a £190 million decrease in treasury RWAs as a result of a reduction in exposures to banks.

These factors more than offset an increase in operational risk RWAs, calculated on the standardised basis, which have increased due to higher income.

Nationwide's CRD IV Pillar 1 capital requirements (risk weights) are calculated using (i) the Retail IRB approach for prime, buy to let and self-certified mortgages (other than those originated by the Derbyshire, Cheshire and Dunfermline building societies) and unsecured lending; (ii) foundation IRB and the PRA's "slotting" methodology for treasury and commercial portfolios (other than sovereign exposures); and (iii) the standardised approach for all other credit risk exposures including some treasury and commercial exposures that are exempt from using the IRB approach.

REGULATORY DEVELOPMENTS

Risk-based capital requirements

Nationwide's capital is reported as a ratio of risk weighted assets (**RWAs**) expressed as a percentage in different measures: CET1 capital, Tier 1 capital and total regulatory capital.

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

Nationwide is currently revising its IRB models to reflect guidance from the PRA on methodologies which will reduce 'point in time' volatility whilst preserving sensitivity to underlying risk drivers.

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

There remains significant uncertainty with respect to the implementation of the proposed Basel capital floor and the impact of the PRA's policy on residential mortgage risk-weights. It is possible that these changes might result in a significant increase in the Society's RWAs and, therefore, reduce its CET1 ratio. Given the nature of Nationwide's balance sheet, which is underpinned by residential mortgage assets with a low risk profile (as demonstrated by a low level of arrears compared to the industry average), the Society's current binding capital constraint is based on leverage (rather than risk-based) capital requirements. Based on Nationwide's current understanding of the proposed changes to risk-weights, and subject to final implementation, the Society currently expects that the leverage ratio will continue to be its binding capital constraint in the near-term. However, it is possible that these changes will, over time, result in risk-weighted capital requirements becoming the binding constraint on the Society. Nationwide anticipates that any capital floor would be implemented over a transitional period, and would expect to respond to any increase in overall capital requirements through organic capital generation (retained earnings) during such a transitional period.

Since 2014, the BoE has conducted concurrent stress tests of the UK banking system on an annual basis. The annual cyclical scenario includes all major UK banks and building societies with total retail deposits equal to, or greater than, £50 billion on an individual or consolidated basis, at a firm's financial year-end date. At present, this group also comprises Nationwide.

In addition, the EBA has conducted its own stress tests for certain European financial institutions. The Society has not to date been involved in the EBA's stress tests.

Capital planning for risk-based requirements

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

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

Leverage requirements

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

On 7 December 2015, the PRA published final rules requiring in-scope firms, including Nationwide, to meet a minimum leverage ratio requirement of 3 per cent., a countercyclical leverage ratio buffer (a **CCLB**) and a supplementary leverage ratio buffer. Currently, and over Nationwide's business planning horizon, Nationwide expects to remain above its regulatory leverage ratio requirement.

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

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

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

Capital planning for leverage requirements

For capital planning purposes, Nationwide is currently anticipating an end-state leverage requirement equal to 4.0 per cent. of the UK leverage exposure. This comprises a proposed minimum requirement of 3.25 per cent., plus a systemic risk buffer of 0.35 per cent. and an assumed 'normal state' countercyclical buffer of 0.4 per cent. (when economic risks are neither heightened nor subdued).

MREL

On 12 June 2014 the BRRD, which outlined provisions for a loss absorbing capacity measure, the MREL, was published in the Official Journal of the European Union. This is expressed as the ratio of own funds and eligible liabilities to own funds and total liabilities. On 3 July 2015, the EBA published final draft technical standards specifying the criteria used to set MREL (requirements include amounts for loss absorption, recapitalisation, the impact of retail deposit guarantees, adjustment for the eligibility of certain liabilities, and supervisory judgment following the Supervisory Review and Evaluation Process (**SREP**)).

The MREL requirements came into force on 1 January 2016, with provisions allowing for supervisory discretion in allowing transitional implementation of these requirements. The current version of the technical standards is set out in a Delegated Regulation that entered into force on 12 September 2016.

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

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

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

MREL planning

Nationwide expects to be subject to an MREL requirement of twice its minimum leverage ratio requirement plus the relevant buffer requirements from 1 January 2020. The BoE gave the Society an indicative MREL requirement of 6 per cent. of its UK leverage exposure plus buffers, however the FPC has since proposed changes to the UK leverage ratio framework which could result in a higher requirement. The Society currently expects that the leverage-based MREL requirement from 1 January 2020 will be its binding MREL constraint when compared with an anticipated risk-based MREL requirement of 22.9 per cent. of RWAs. The Society currently expects to seek to meet its 2020 requirement through the issuance of MREL-compliant debt securities, with an estimated gross issuance requirement of approximately £5 billion ahead of the 1 January 2020 implementation.

Liquidity

Basel III introduces certain minimum liquidity standards (referred to as the Liquidity Coverage Ratio (**LCR**) and the Net Stable Funding Ratio (**NSFR**), which both fall within the PRA's Pillar 1 regime. The LCR is intended to measure whether firms hold an adequate level of unencumbered high-quality assets to meet net cash outflows under a stress scenario lasting for 30 days. The ratio measures the stock of liquid assets (the numerator) against net cash outflows (the denominator) arising in the 30 day stress scenario period. Firms would be expected to maintain an LCR of at least 100 per cent., once the LCR is fully implemented. In the UK, the PRA has set the LCR at 80 per cent. from 1 October 2015, rising to 90 per cent. on 1 January 2017 and reaching 100 per cent. on 1 January 2018. The NSFR is intended to address liquidity mismatches, with the aim of aligning more closely the funding of longer-term (and hence more illiquid) assets or activities with more stable medium or longer-term liability and equity financing. The NSFR measures the amount of stable funding available to a bank against the required amount of stable funding. The ratio should be equal to at least 100 per cent. on an ongoing basis (i.e. the available stable funding must exceed the required stable funding). The Basel Committee expected its members to introduce the NSFR as a minimum standard by 1 January 2018; however, the Council of the EU and the European Parliament are still considering the Commission's legislative proposals for the CRR 2 regulation which contains measures introducing a binding NSFR.

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

PART XVII– 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 Statements as well as "*Part XV: 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 each of the financial years ended 4 April 2017, 2016 and 2015, respectively.

	For the financial year ended 4 April 2017		
	Average balance(1)	**Interest**(2)	**Average yield/rate**
	(*£ millions, except percentages*)		
Interest-earning assets:			
Loans to credit institutions	19,119	59	0.31%
Debt securities and derivative financial instruments(2)	15,048	58	0.39%
Loans to customers	184,966	4,933	2.67%
Total average interest-earning assets	**219,133**	**5,050**	**2.3%**
Non-interest-earning assets:			
Tangible fixed assets	820		
Fair value adjustment for hedged risk	862		
Other financial assets at fair value	7		
Other assets	650		
Goodwill and intangible fixed assets	1,243		
Investment properties	8		
Deferred tax assets	124		
Total average assets	**222,847**		
Interest-bearing liabilities:			
Shares held by individuals(3)	143,208	1,390	0.97%
Other deposits	18,525	43	0.23%
Debt securities in issue and derivative financial instruments(2)	45,113	544	1.21%
Subordinated liabilities	2,477	87	3.51%
Tier 1 capital instruments	374	21	5.61%
Interest on net defined benefit pension liability	—	5	—
Total average interest-bearing liabilities	**209,697**	**2,090**	**1.00%**
Non-interest-bearing liabilities:			
Other liabilities	1,649		
Fair value adjustment for hedged risk	15		
Other financial liabilities at fair value	1		

Reserves	11,171
Current taxes	314
Total average liabilities	**222,847**

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.

(3) These are UK retail member deposits.

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

Current taxes	176
Total average liabilities	**203,485**

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.

(3) These are UK retail member deposits.

	For the financial year ended 4 April 2015		
	Average balance(1)	**Interest**(2)	**Average yield/rate**
	(*£ millions, except percentages*)		
Interest-earning assets:			
Loans to credit institutions	9,271	28	0.30%
Debt securities and derivative financial instruments(2)	14,553	23	0.16%
Loans to customers	168,736	5,296	3.14%
Total average interest-earning assets	**192,560**	**5,347**	**2.78%**
Non-interest-earning assets:			
Tangible fixed assets	855		
Fair value adjustment for hedged risk	350		
Other financial assets at fair value	15		
Other assets	598		
Goodwill and intangible fixed assets	977		
Investment properties	9		
Deferred tax assets	26		
Total average assets	**195,390**		
Interest-bearing liabilities:			
Shares held by individuals(3)	133,095	1,897	1.43%
Other deposits	16,676	116	0.70%
Debt securities in issue and derivative financial instruments(2)	31,864	367	1.15%
Subordinated liabilities	2,202	66	3.00%
Tier 1 capital instruments	590	23	3.90%
Interest on net defined benefit pension liability	—	6	—
Total average interest-bearing liabilities	**184,427**	**2,475**	**1.34%**
Non-interest-bearing liabilities:			
Other liabilities	1,399		
Fair value adjustment for hedged risk	14		
Other financial liabilities at fair value	2		
Reserves	9,406		
Current taxes	142		

Total average liabilities	**195,390**

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.

(3) These are UK retail member deposits.

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 each of the financial years ended 4 April 2017, 2016 and 2015, respectively.

	For the financial year ended 4 April 2017
	(*£ millions, except percentages*)
Net average interest-earning assets	219,133
Net average interest-bearing liabilities	209,697
Net interest income(1)	2,960
Average yield on average interest-earning assets	2.30%
Average rate on average interest-bearing liabilities	1.00%
Net interest spread(2)	1.30%
Net interest margin(3)	1.33%

	For the financial year ended 4 April 2016
	(*£ millions, except percentages*)
Net average interest-earning assets	200,247
Net average interest-bearing liabilities	191,600
Net interest income(1)	3,086
Average yield on average interest-earning assets	2.64%
Average rate on average interest-bearing liabilities	1.15%
Net interest spread(2)	1.49%
Net interest margin(3)	1.52%

	For the financial year ended 4 April 2015
	(*£ millions, except percentages*)
Net average interest-earning assets	192,560
Net average interest-bearing liabilities	184,427
Net interest income(1)	2,872
Average yield on average interest-earning assets	2.78%
Average rate on average interest-bearing liabilities	1.34%
Net interest spread(2)	1.43%
Net interest margin(3)	1.47%

Notes:

(1) Defined as total interest income less total interest expense.
(2) This APM is defined as the difference between the average yield on interest-earning assets and the average rate on interest-bearing liabilities.
(3) Defined as net interest income divided by weighted average total assets. See further "*Alternative performance measures and other non-IFRS financial information*" in section 2 "*Presentation of financial information*" in "*Part VI: Presentation of Information*".

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 4 April 2017 compared to the financial year ended 4 April 2016 and for the financial year ended 4 April 2016 compared to the financial year ended 4 April 2015, 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 Statements.

	Financial year ended 4 April 2017 compared to financial year ended 4 April 2016		
	Increase/(decrease) in net interest due to changes in:		
	Volume	**Yield/rate**	**Total net change**
		(*£ millions*)	
Interest income:[1]			
Loans to credit institutions	24	2	26
Debt securities and derivative financial instruments	(8)	(5)	(13)
Loans to customers	294	(550)	(256)
Total interest income	**309**	**(553)**	**(244)**
Interest expense:[1]			
UK retail member deposits	89	(275)	(186)
Amounts owed to credit institutions	5	(7)	(2)
Amounts owed to other customers	(7)	(25)	(32)
Debt securities in issue	111	(40)	71
Subordinated liabilities	21	9	30
Subscribed capital	(2)	6	4
Total interest expense excluding pension cost	**217**	**(332)**	**(115)**
Net interest income	**92**	**(221)**	**(129)**

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

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 4 April 2017, Nationwide's investment securities AFS portfolios were carried at a book value of £9,764 million, representing 4.4 per cent. of Nationwide's total assets. 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 each of 4 April 2017, 4 April 2016 and 4 April 2015, respectively.

	As at 4 April		
	2017	**2016**	**2015**
		(*£ millions*)	
Investment securities			
Government and supranational[1]	6,897	6,843	6,726
Other debt investment securities	2,867	3,769	4,311
Total	**9,764**	**10,612**	**11,037**

Notes:

(1) As at 4 April 2017, government and supranational securities (including UK government and local authorities, and sovereign debt backed by foreign governments) that Nationwide held were equal to 74 per cent. of Nationwide's general and revaluation reserves compared to 76 per cent. at 4 April 2016 and 83 per cent. as at 4 April 2015.

(2) As at 4 April 2017, 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 4 April 2017.

	As at 4 April 2017				
	Maturing within 1 year	Maturing after 1 but within 5 years	Maturing after 5 but within 10 years	Maturing after 10 years	Total
			(*£ millions*)		
Government and supranational	52	1,348	4,022	1,474	6,897
Other debt investment securities	240	872	363	1,392	2,867
Total	**292**	**2,220**	**4,385**	**2,867**	**9,764**

The following table sets out an analysis of investment securities issued by other issuers and held by Nationwide as at 4 April 2017, 4 April 2016 and 4 April 2015.

	As at 4 April		
	2017	2016	2015
		(*£ millions*)	
Investment securities – other issuers			
UK financial institutions	—	—	—
European financial institutions	—	—	—
Non-European financial institutions	—	—	—
Asset backed securities	2,153	2,656	3,224
Other issuers	714	1,113	1,087
Total	**2,867**	**3,769**	**4,311**

5. LENDING AND LOAN PORTFOLIOS

As at 4 April 2017, Nationwide's total loans and advances to customers and banks (including fair value adjustments for portfolio hedged risk, including accrued interest) were £190.0 billion.

As at 4 April 2017, Nationwide's total net loans and advances to customers (excluding fair value adjustments for hedged risk, including accrued interest) were £186.0 billion, representing 83.9 per cent. of Nationwide's total assets. Nationwide's net customer loan portfolio increased by 4.8 per cent. during the financial year ended 4 April 2017 from £177.4 billion as at 4 April 2016 and increased by 4.8 per cent. during the financial year ended 4 April 2016 (from £169.3 billion as at 4 April 2015 to £177.4 billion as at 4 April 2016). Nationwide's customer lending remains predominantly concentrated on secured products, with residential mortgages with a low risk profile (as demonstrated by a low level of arrears compared to the industry average) accounting for 92.0 per cent. of Nationwide's total loans and advances to customers at 4 April 2017.

The following table sets out the composition of Nationwide's loan portfolio, net of allowances, as at 4 April in each of 2017, 2016 and 2015, respectively.

	As at 4 April					
	2017		2016		2015	
	(£ billions, except percentages of gross balances)					
Prime residential mortgages	138.0	74.2%	129.9	73.2%	124.6	73.4%
Specialist residential mortgages	33.1	17.8%	32.1	18.2%	28.3	16.6%
Total residential mortgages	**171.1**	**92.0%**	**162.1**	**91.4%**	**152.8**	**90.3%**
Commercial lending	11.2	6.0%	11.8	6.7%	12.9	7.6%
Other lending	0.0	0.0%	0.0	0.0%	0.0	0.0%
Consumer banking	3.7	2.0%	3.6	2.0%	3.6	2.1%
Total customer loans	**186.0**	**100.0%**	**177.4**	**100.0%**	**169.3**	**100.0%**
Fair value adjustments for micro-hedged risk[(1)]	1.4		1.4		1.4	
Loans and advances to banks	2.6		3.6		3.4	
Total loan portfolio	**190.0**		**182.4**		**174.0**	

Note:
(1) Under IFRS the carrying value of the hedged item is adjusted for the change in value of the hedged risk.

The following table sets out the contractual maturity distribution for repayment for Nationwide's total gross loans to customers and banks as at 4 April 2017.

	As at 4 April 2017						
	Due within 1 month[(1)]	**Due between 1 and 3 months**	**Due in 3 months to 1 year**	**Due between 1 and 2 years**	**Due between 2 and 5 years**	**Due after 5 years**	**Total[(2)]**
	(£ millions)						
Loans and advances to customers	2,890	1,309	5,724	7,259	22,057	148,132	187,371
Loans and advances to banks	2,226	—	—	—	—	361	2,587
Total loans	**5,116**	**1,309**	**5,724**	**7,259**	**22,057**	**18,493**	**189,958**

Notes:
(1) Includes amounts repayable on demand.
(2) 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.

5.1 Residential mortgage portfolio

Overview

Residential mortgages include prime and specialist loans, with new lending in the specialist portfolio comprised entirely of buy to let lending. Gross mortgage lending in the financial year ended 4 April 2017 was £33.7 billion (compared £32.6 billion in the financial year ended 4 April 2016 and £27.1 billion in the financial year ended 4 April 2015), representing market shares of 14 per cent. as at 4 April 2017, 13.7 per cent. as at 4 April 2016 and 13.4 per cent. as at 4 April 2015).

Mortgage balances grew by £9.1 billion in the financial year ended 4 April 2017, of which £8.0 billion was prime lending and £1.1 billion related to specialist mortgages. In the financial year ended 4 April 2016, mortgage balances grew by £9.3 billion, of which £5.4 billion was prime lending and £3.9 billion related to specialist mortgages

Buy to let lending accounted for 14 per cent. of total new business in the financial year ended 4 April 2017, compared to 22 per cent. in the financial year ended 4 April 2016 and 18 per cent. in the financial year ended 4 April 2015. The growth of the buy to let portfolio slowed in the financial year ended 4 April 2017 following a decision taken in May 2016 to increase the minimum interest cover ratio for new lending from 125 per cent. to 145 per cent. and reduce the maximum LTV from 80 per cent. to 75 per cent. Despite the anticipated impact of this decision on the growth of the portfolio, these steps were taken in response to forthcoming income tax changes which will materially affect cash flow and affordability for some landlords. In the financial year ended 4 April 2016, growth in the portfolio was primarily due to the growing importance of the private rental sector for UK housing needs as a whole, reflecting long-term economic and social trends.

The average LTV of new lending in the financial year ended 4 April 2017, weighted by value, was 71 per cent. compared to 69 per cent. in each of the two financial years ended 4 April 2016. The increase in the financial year ended 4 April 2017 was primarily due to Nationwide's strategy to increase lending to the first time buyer market as it recognises the importance of helping people take their initial steps onto the housing ladder. Modest house price growth has resulted in the average LTV of Nationwide's portfolio remaining flat at 55 per cent. as at 4 April 2017 and 4 April 2016 and 56 per cent. as at 4 April 2015. Residential mortgage arrears were 0.45 per cent. as at 4 April 2017 and 4 April 2016 and 0.49 per cent. as at 4 April 2015.

Non-performing balances were £2,694 million as at 4 April 2017, £485 million, or 15.3 per cent., lower than the £3,179 million recorded as at 4 April 2016. Non-performing balances as at 4 April 2016 were £354 million, or 10.0 per cent., lower than the £3,533 million recorded as at 4 April 2015.

Notwithstanding the reduction in non-performing balances in the financial year ended 4 April 2017, the impairment provision balance increased to £144 million as at 4 April 2017 from £102 million as at 4 April 2016. This increase in provisions reflects an update to Nationwide's credit loss provisioning methodology and assumptions to ensure that provisions appropriately reflect incurred losses within the portfolio. This update included focusing on the credit risk associated with maturing interest only loans and the period for evidence of impairment losses to emerge on up to date loans. This provision increase, combined with a reduction in non-performing balances, resulted in an increase in impairment provisions as a percentage of non-performing balances to 5.3 per cent. as at 4 April 2017 from 3.2 per cent. as at 4 April 2016.

In the financial year ended 4 April 2016, the impairment provision balance decreased from £110 million as at 4 April 2015 to £102 million as at 4 April 2016. This decrease in provisions reflected moderate house price growth combined with a reduction in mortgage arrears. This provision decrease, combined with a reduction in non-performing balances, resulted in an increase in impairment provisions as a percentage of non-performing balances from 3.1 per cent. as at 4 April 2015 to 3.2 per cent. as at 4 April 2016.

LTV analysis

The following table sets out an LTV analysis (calculated on a volume basis) of Nationwide's residential mortgage portfolio at 4 April in each of 2017, 2016 and 2015 as well as the LTV profile for new business originated in each of the financial years ended 4 April 2017, 2016 and 2015, respectively. The analysis of the new business profile and average LTV of new business shown in the table exclude further advances.

	As at 4 April		
	2017	**2016**	**2015**
		(*per cent.*)	
LTV distribution of new business			
<60%	26	26	26
60% - 75%	31	40	42
75% - 80%	9	9	10
80% - 85%	14	12	10
85% - 90%	17	11	11
90% - 95%	3	2	1
>95%	—	—	—
	100	**100**	**100**
Average LTV of stock (indexed)	55	55	56
Average LTV of new business[(1)]	71	69	69
Profile for new business originated in the period[(1)]			
First-time buyers	36	28	26
Home movers	30	31	32
Remortgagers	19	18	23
Buy to let	14	22	18
Other	1	1	1
Total	**100**	**100**	**100**

Note:
(1) Exclude further advances.

For a breakdown of Nationwide's residential mortgage balances by LTV and geographical region as at 4 April 2017 and 4 April 2016, see the tables on pages 88 and 89 of Nationwide's Annual Report and Accounts 2017 which are included in Nationwide's 2017 Financial Statements which are incorporated by reference in this document. For a breakdown of Nationwide's residential mortgage balances by LTV and geographical region as at 4 April 2015, see the table on page 120 of Nationwide's Annual Report and Accounts 2016 which is included in Nationwide's 2016 Financial Statements which are incorporated by reference in this document.

Arrears analysis

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 4 April in each of 2017, 2016 and 2015.

	As at 4 April		
	2017	2016	2015
	(*per cent.*)		
Prime	0.36	0.35	0.36
Specialist	0.89	0.90	1.12
Total Nationwide residential mortgages	**0.45**	**0.45**	**0.49**
CML industry average	**0.91**	**1.04**	**1.30**

The table illustrates that arrears on Nationwide's prime lending remained stable remained stable across all periods in the prime portfolio and improved in the specialist portfolio, particularly in the financial year ended 4 April 2016 driven by favourable economic conditions and a continued low interest environment. Nationwide's arrears performance remains strong relative to the CML industry average of 0.91 at 4 April 2017, and Nationwide's specialist lending arrears at 4 April 2017 were below the overall industry measure that is inclusive of prime lending. Nationwide expects that future changes in arrears are more likely to be gradual upward movements rather than falls.

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.

Properties in possession

The number of properties in possession at 4 April 2017 was 225 representing 0.01 per cent. of Nationwide's total residential mortgaged properties, which compares well with the industry measure of 0.03 per cent. quoted by CML as at 4 April 2017.

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 4 April in each of 2017, 2016 and 2015.

	As at 4 April		
	2017	2016	2015
	(*per cent.*)		
Prime	0.01	0.01	0.01
Specialist	0.05	0.04	0.10
Total Nationwide residential properties	**0.01**	**0.01**	**0.03**

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. During the financial year ended 4 April 2017, the properties taken into possession increased to 225, representing only 0.01 per cent. of Nationwide's book compared to the CML industry average of 0.03 per cent.

Payment due status

The following tables set out further information on Nationwide's residential mortgage loan portfolio by payment due status as at 4 April in each of 2017, 2016 and 2015.

	As at 4 April 2017			
	Prime lending	**Specialist lending**	**Total**	
	(*£ billions, except percentages*)			
Neither past due nor impaired......................	136.4	32.2	168.6	98.4%
Past due up to 3 months but not impaired.....	1.3	0.7	2.0	1.1%
Impaired...	0.3	0.4	0.7	0.5%
Total...	**138.0**	**33.3**	**171.3**	**100.0%**

	As at 4 April 2016			
	Prime lending	**Specialist lending**	**Total**	
	(*£ billions, except percentages*)			
Neither past due nor impaired......................	128.0	31.1	159.0	98.0%
Past due up to 3 months but not impaired.....	1.6	0.8	2.4	1.5%
Impaired...	0.4	0.4	0.9	0.5%
Total...	**129.9**	**32.3**	**162.2**	**100.0%**

	As at 4 April 2015			
	Prime lending	**Specialist lending**	**Total**	
	(*£ billions, except percentages*)			
Neither past due nor impaired......................	122.5	26.9	149.4	97.7%
Past due up to 3 months but not impaired.....	1.7	0.9	2.6	1.7%
Impaired...	0.4	0.5	0.9	0.6%
Total...	**124.6**	**28.3**	**152.9**	**100.0%**

The status "past due up to three months but not impaired" includes any asset where a payment due is received late or missed.

Impaired and non-performing loans are identified primarily by arrears status. Impaired accounts are defined as those greater than three months in arrears and include accounts subject to possession. Non-performing accounts include:

- all impaired loans

- loans which are past due but not impaired, including any loan where a payment due is received late or missed

- past term interest only loans which have gone into litigation.

The non-performing loan amount represents the entire loan 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.

Impairment provisions are held in relation to both the performing and non-performing segments of the residential mortgage portfolio. Provisions reflect losses which have been incurred at the balance sheet date, based on objective evidence. Individual impairment provisions are assigned to accounts in possession and a collective provision is assigned to all other accounts. For currently performing loans, the provision reflects losses arising from impairment events that have occurred within the portfolio but are not identifiable at the reporting date.

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

The following tables set out the status of Nationwide's impaired residential mortgage loans as at 4 April in each of 2017, 2016 and 2015.

	As at 4 April 2017			
	Prime lending	**Specialist lending**	**Total**	
	(*£ millions, except percentages*)			
Past due 3 to 6 months	156	173	329	42.6%
Past due 6 to 12 months	117	118	235	30.4%
Past due over 12 months	91	91	182	23.5%
Litigations (past term interest only)	—	1	1	0.1%
Possessions	8	18	26	3.4%
Total	**372**	**401**	**773**	**100.0%**

	As at 4 April 2016			
	Prime lending	**Specialist lending**	**Total**	
	(*£ billions, except percentages*)			
Past due 3 to 6 months	170	188	358	46.0%
Past due 6 to 12 months	115	115	230	29.6%
Past due over 12 months	75	91	166	21.3%
Possessions	6	18	24	3.1%
Total	**366**	**412**	**778**	**100.0%**

	As at 4 April 2015			
	Prime lending	Specialist lending	Total	
	(£ billions, except percentages)			
Past due 3 to 6 months	190	207	397	44.4%
Past due 6 to 12 months	120	143	263	29.4%
Past due over 12 months	72	97	169	18.9%
Possessions	14	52	66	7.4%
Total	**396**	**499**	**895**	**100.0%**

Note:

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

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 tables below show certain asset quality statistics in relation to Nationwide's residential mortgage portfolio as at 4 April in each of 2017, 2016 and 2015.

	As at 4 April 2017		
	Prime lending	Specialist lending	Total
	(£ millions, except percentages)		
Total residential mortgages	138,004	33,259	171,263
Total non-performing loans	1,630	1,064	2,694
Impairment provisions	34	110	144
Non-performing loans as a % of total residential mortgages	1.2%	3.2%	1.6%
Impairment provisions as a % of non-performing balances	2.1%	10.3%	5.3%
Impairment provisions as a % of total residential mortgages	0.02%	0.33%	0.08%

	As at 4 April 2016		
	Prime lending	Specialist lending	Total
	(£ millions, except percentages)		
Total residential mortgages	129,973	32,191	162,164
Total non-performing loans	1,987	1,192	3,179
Impairment provisions	25	77	102
Non-performing loans as a % of total residential mortgages	1.5%	3.7%	2.0%
Impairment provisions as a % of non-performing balances	1.3%	6.5%	3.2%
Impairment provisions as a % of total residential mortgages	0.02%	0.24%	0.06%

	As at 4 April 2015		
	Prime lending	Specialist lending	Total
	(£ millions, except percentages)		
Total residential mortgages	124,549	28,336	152,885
Total non-performing loans	2,125	1,408	3,533
Impairment provisions	22	88	110
Non-performing loans as a % of total residential mortgages	1.7%	5.0%	2.3%
Impairment provisions as a % of non-performing balances	1.0%	6.3%	3.1%
Impairment provisions as a % of total residential mortgages	0.02%	0.31%	0.07%

Renegotiated loans and forbearance

The Group offers a number of support options to both secured and unsecured customers. With effect from the financial year ended 4 April 2017, Nationwide now only reports forborne loans, determined in alignment with European Banking Authority financial reporting definitions. Under the new definitions, forbearance includes:

Past term interest only concession

Nationwide works with customers who are unable to repay the capital at term expiry of their interest only mortgage. Where a customer is unable to renegotiate the facility within six months of maturity but no legal enforcement is pursued, the account is considered forborne. Should another concession event such as a term extension occur within the six month period, this will also be classed as forbearance. Additional provisions are held against these mortgages to account for the increased risk of a customer being unable to repay.

Interest only concession

Where a temporary interest only concession is granted the loans do not accrue arrears for the period of the concession and are not categorised as impaired, unless already impaired, provided the revised interest only repayment amount is maintained. Provisions are held as if the arrears were accumulating in line with any shortfall against the full contractual payment.

Capitalisation

When a customer emerges from financial difficulty, and provided they have made at least six full monthly instalments, they are offered the ability to capitalise standing arrears. This results in the account being repaired and the loans are categorised as not impaired provided contractual repayments are maintained. Additional provisions are held for these loans, reflecting the heightened probability of future default for these customers.

Term extension (within term)

Customers in financial difficulty may be allowed to extend the term of their mortgage. On a capital repayment mortgage this will reduce their monthly commitment; interest only customers will benefit by having a longer period to repay the capital at maturity. Additional provisions are held for these loans, reflecting the heightened probability of future default for these customers.

Permanent interest only conversion

In the past, some customers in financial difficulty were granted a permanent interest only conversion, normally reducing their monthly commitment. This facility was withdrawn in March 2012. Additional provisions are held for these loans, reflecting the heightened probability of future default for these customers.

The change of reporting to align with European Banking Authority financial reporting definitions resulted in:

1. Certain concessions previously reported as re-negotiated balances not being included in the agreed definition of forbearance. This includes:

    - agreements for customers to pay less than the contractual amount, but where arrears still accumulate;
    - payment holidays taken by eligible customers not in financial difficulty;
    - interest only mortgages for which the principal remains outstanding for up to six months after maturity; and
    - changes in loan term or repayment type that do not relate to financial difficulty.

2. Exit criteria have been introduced, whereby loans exit forbearance if they meet certain payment and arrears conditions, including a two year probation period post the forbearance event. The previous reporting of renegotiated loans included all balances that had ever been forborne since 2008.

Balances previously reported as re-negotiated at 4 April 2016 were £13,041 million. Using the current definition of forbearance, only £1,151 million of balances were forborne at that date. The changes are summarised below:

Reconciliation of balances at 4 April 2016	**Prime**	**Specialist**	**Total**
		(*£ millions*)	
Renegotiated loans as previously reported	11,098	1,943	13,041
Changes in reporting definition[(1)]	(9,192)	(1,295)	(10,487)
Exit criteria for forborne loans	(1,096)	(307)	(1,403)
Forborne loans	**810**	**341**	**1,151**

Note:

(1) The changes in reporting definition have led to the removal of concessions that do not relate to financial difficulty, primarily £6,193 million of loans where there have been changes in loan term and £2,378 million of loans where payment holidays have been taken by an eligible customer. The amounts removed include all loans that have been subject to these concessions since 2008.

The options outlined above apply predominantly to the prime residential mortgage portfolio. The table below show outstanding loans as at 4 April in each of 2017 and 2016 that are subject to forbearance in alignment with European Banking Authority definitions.

	As at 4 April			
	2017		**2016**	
	(*£ millions*)	(*% of total prime loans and advances*)	(*£ millions*)	(*% of total prime loans and advances*)
Past term interest only concessions	295	27.0%	245	21.3%
Interest only concessions	571	52.2%	627	54.5%
Capitalisation	131	12.0%	161	14.0%
Term extensions (within term).....................	58	5.3%	72	6.3%
Permanent interest only conversions	39	3.6%	46	4.0%
Total forbearance	**1,094**	**100.0%**	**1,151**	**100.0%**

Prior to 4 April 2016, Nationwide classified and reported its re-negotiated loans in three categories:

- ***change in terms***, which included payment holidays and payment concessions (both as described below and neither of which are included in the new definition of forbearance) and term extensions (within term) and permanent only interest conversions (both as described above in the new definition of forbearance);
- ***forbearance***, in the form of a temporary interest-only concession (as described above in the new definition of forbearance); and
- ***repair***, in the form of capitalisation (as described above in the new definition of forbearance) and term extensions at term expiry for customers on interest-only mortgages (as described below).

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). Payment holidays are no longer reported as forborne loans with effect from the financial year ended 4 April 2017.

Payment concessions

Customers in arrears may be offered a temporary payment concession allowing them to make reduced or no payments for an agreed period of time. This does not result in a permanent change to the contract and during the concession arrears are still accrued. Payment concessions are no longer reported as forborne loans with effect from the financial year ended 4 April 2017.

Term extension at expiry

Customers on interest only mortgages who are unable to repay their capital at term expiry may be offered a term extension. These extensions are typically on a capital and interest basis and aim to recover the outstanding balance as quickly as possible whilst ensuring that the monthly payment remains manageable to the customer. Term extensions at expiry are no longer reported as forborne loans with effect from the financial year ended 4 April 2017.

The table below show outstanding loans as at 4 April in each of 2016 and 2015 that were subject to renegotiation in alignment with Nationwide's previous financial reporting at some point since 2008.

	As at 4 April			
	2016		**2015**	
	(*£ millions*)	(*% of total prime loans and advances*)	(*£ millions*)	(*% of total prime loans and advances*)
Change in terms	11,518	88.3%	12,408	88.8%
Forbearance	1,553	11.9%	1,659	11.9%
Repair	1,091	8.4%	1,085	7.8%
Elimination of multiple events[(1)]	(1,121)	(8.6)%	(1,178)	(8.4)%
Total renegotiated loans	**13,041**	**100.0%**	**13,974**	**100.0%**

Note:

(1) It is possible for a loan to have more than one category and in such cases both are shown and multiple events are then eliminated.

Collateral

Almost all of Nationwide's residential mortgage lending portfolio is considered to be fully collateralised. The value of its partially collateralised non-performing loans was £66 million as at 4 April 2017 compared to £99 million as at 4 April 2016 and £135 million as at 4 April 2015. The reduction in the level of partially collateralised non-performing loans primarily reflects growth in house prices and, in the financial year ended 4 April 2016, a reduction in arrears cases.

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).

For details of the collateralisation levels on Nationwide's residential mortgage lending as at 4 April 2017 and 4 April 2016, see the tables on pages 88 and 89 of Nationwide's Annual Report and Accounts 2017 which are included in Nationwide's 2017 Financial Statements which are incorporated by reference in this document. For details of the collateralisation levels on Nationwide's residential mortgage lending as at 4 April 2015, see the table on page 120 of Nationwide's Annual Report and Accounts 2016 which is included in Nationwide's 2016 Financial Statements which are incorporated by reference in this document.

Negative equity

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 4 April in each of 2017, 2016 and 2015.

	As at 4 April 2017		**As at 4 April 2016**		**As at 4 April 2015**	
	Prime lending	**Specialist lending**	**Prime lending**	**Specialist lending**	**Prime lending**	**Specialist lending**
			(*£ millions*)			
Past due but not impaired........................	1	3	2	4	2	7
Impaired........................	1	5	1	10	2	9
Possessions	—	1	—	1	—	6
Total............................	**2**	**9**	**3**	**15**	**4**	**22**

5.2 Consumer banking

Introduction

Consumer banking comprises retail balances relating to personal loans of £2.0 billion as at 4 April 2017 (compared to £1.9 billion as at 4 April 2016 and £1.8 billion as at 4 April 2015), credit cards of £1.7 billion as at 4 April 2017 (compared to £1.7 billion as at 4 April 2016 and £1.8 billion as at 4 April 2015) and current account overdrafts of £0.2 billion as at 4 April 2017 (compared to £0.2 billion as at each of 4 April 2016 and 4 April 2015). Total balances across these portfolios grew by £80 million, or 2.1 per cent., in the financial year ended 4 April 2017 and by £78 million, or 2.1 per cent., during the financial year ended 4 April 2016, in each case despite the continued intense competition across all lenders in the unsecured market. The asset quality of the portfolio remains strong, benefiting from proactive risk management practices and continued low interest rates.

The table below shows the components of consumer banking lending as at 4 April in each of 2017, 2016 and 2015.

	2017	2016	2015
		(*£ million*)	
FlexAccount (overdraft balances)	261	247	248
Personal loans	1,957	1,901	1,799
Credit cards	1,731	1,721	1,744
Total	**3,949**	**3,869**	**3,791**

Asset quality

Asset quality remains strong, benefitting from proactive risk management practices and continued low interest rates. The table below sets out information on Nationwide's consumer banking portfolio by payment due status as at 4 April in each of 2017, 2016 and 2015.

	As at 4 April		
	2017	**2016**	**2015**
		(*£ millions*)	
Neither past due nor impaired	3,638	3,524	3,467
Past due up to 3 months but not impaired	78	85	99
Impaired	59	63	72
Charged off	174	197	153
Total balances	**3,949**	**3,869**	**3,791**

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 payment status of Nationwide's impaired consumer banking loans as at 4 April in each of 2017, 2016 and 2015.

	As at 4 April		
	2017	**2016**	**2015**
		(*£ millions*)	
Past due 3 to 6 months	26	26	30
Past due 6 to 12 months	16	17	25
Past due over 12 months	17	20	17
Charged off[(1)]	174	197	153
Total impaired balances	**233**	**260**	**225**

Note:

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

The following table sets out an arrears analysis (relating to accounts more than 90 days in arrears) of Nationwide's consumer loans by type as at 4 April in each of 2017, 2016 and 2015.

	As at 4 April		
	2017	**2016**	**2015**
		(*£ millions*)	
Current account overdrafts	24	25	34
Personal loans	97	117	100
Credit cards	112	118	91
Total	**233**	**260**	**225**

The increase in total arrears balances as at 4 April 2016 principally reflected a decision, made in the financial year ended 4 April 2014, to hold balances on the balance sheet for an extended period up to 36 months whilst recovery activity is completed. Excluding these charged-off balances, non-performing balances fell by £23 million in the financial year ended 4 April 2016, reflecting improved quality across the current account and personal loan portfolios following the implementation of enhanced pricing and risk policies, together with a favourable economy.

The decrease in total arrears balances as at 4 April 2017 principally reflected the fact that arrears which had met the 36 month threshold were written off for the first time following the implementation of that threshold. In addition, asset quality remained strong with non-performing balances (excluding charged-off balances) reducing by 7 per cent. in the financial year ended 4 April 2017.

The tables below shows certain additional information in relation to the asset quality of the consumer banking portfolio as at 4 April in each of 2017, 2016 and 2015.

	As at 4 April 2017			
	Overdrawn current accounts	**Personal loans**	**Credit cards**	**Total**
		(*£ millions, excluding percentages*)		
Non-performing loans	36	135	140	311
Non-performing loans as a % of total (excluding charged off balances)	9%	4%	3%	4%
Impairment provisions excluding charged off balances	15	48	42	105
Impairment provisions on charged off balances	13	60	91	164
Total impairment provisions	**28**	**108**	**133**	**269**
Impairment provisions as a % of non performing loans (including charged off balances)	78%	80%	95%	86%
Impairment provisions as a % of total balances	11%	6%	8%	7%

	As at 4 April 2016			
	Overdrawn current accounts	**Personal loans**	**Credit cards**	**Total**
	(*£ millions, excluding percentages*)			
Non-performing loans	41	159	145	345
Non-performing loans as a % of total (excluding charged off balances)	11%	4%	2%	4%
Impairment provisions excluding charged off balances	13	46	38	97
Impairment provisions on charged off balances	12	75	97	184
Total impairment provisions	**25**	**121**	**135**	**281**
Impairment provisions as a % of non performing loans (including charged off balances)	61%	76%	93%	81%
Impairment provisions as a % of total balances	10%	6%	8%	7%

	As at 4 April 2015			
	Overdrawn current accounts	**Personal loans**	**Credit cards**	**Total**
	(*£ millions, excluding percentages*)			
Non-performing loans	50	153	121	324
Non-performing loans as a % of total (excluding charged off balances)	11%	6%	3%	5%
Impairment provisions excluding charged off balances	11	37	29	77
Impairment provisions on charged off balances	20	50	69	139
Total impairment provisions	**31**	**87**	**98**	**216**
Impairment provisions as a % of non performing loans (including charged off balances)	62%	57%	81%	67%
Impairment provisions as a % of total balances	13%	5%	6%	6%

Impairment provisions are held against both performing and non performing segments of the consumer banking portfolio.

Nationwide's impairment losses for the year were £78 million in the financial year ended 4 April 2017, £96 million in the financial year ended 4 April 2016 and £89 million in the financial year ended 4 April 2015. The provision methodology was updated in each of the financial years ended 4 April 2017 and 4 April 2016: in the financial year ended 4 April 2017 the provisions were increased to recognise the impact of prolonged low interest rates and the favourable economic environment potentially dampening the emergence of arrears which led to an additional £7 million charge and, in the financial year ended 4 April 2016, there were changes to model assumptions following a review of the credit risk impairment assumptions that focused, in particular, on up to date accounts which led to an additional £29 million charge.

Forbearance

The following concession events are included within the forbearance reporting for consumer banking:

Payment concession

This concession consists of reduced monthly payments over an agreed period and may be offered to customers with an overdraft or credit card. For credit cards subject to such a concession, arrears do not increase provided the payments are made.

Interest suppressed payment arrangement

This temporary interest payment concession results in reduced monthly payments and may be offered to customers with an overdraft, credit card or personal loan. Interest payments and fees are suppressed during the period of the concession and arrears do not increase.

Balances re-aged/re-written

As customers repay their debt in line with the terms of their arrangement and begin to emerge from financial difficulty Nationwide repairs their accounts, bringing them into an up-to-date and performing position. For personal loans Nationwide re-writes their account over a longer term, to maintain a reduced monthly payment. For credit cards Nationwide re-ages the account and sets the payment status to 'up-to-date', at which point the customer is treated in the same way as any other performing account.

Impairment provisions on forborne accounts are calculated to ensure that they appropriately capture any heightened likelihood for these accounts to default.

The table below provides details of the consumer banking exposures which are subject to forbearance as at 4 April 2017 and 4 April 2016.

	Overdrawn current accounts	**Personal loans**	**Credit cards**	**Total**
2017		(*£ millions*)		
Payment concession	17	—	2	19
Interest suppressed payment arrangement	5	29	18	52
Balances re-aged/re-written	—	—	5	5
Total forbearance	**22**	**29**	**25**	**76**
Impairment provision on forborne loans	3	24	16	43
2016				
Payment concession	19	—	3	22
Interest suppressed payment arrangement	4	30	21	55
Balances re-aged/re-written	—	—	7	7
Total forbearance	**23**	**30**	**31**	**84**
Impairment provision on forborne loans	2	25	19	46

Note:
Where more than one concession event has occurred, exposures are reported under the latest event.

Alignment with the European Banking Authority financial reporting definitions has resulted in two key changes:

1. The following concessions previously reported as re-negotiated balances are not included in the agreed definition of forbearance:

   - personal loans with a repayment plan are only reported as forbearance where interest is suppressed. Previously all repayment plans were reported as renegotiated balances.

   - current accounts previously considered as a repair, where the overdrawn balance on a plan had been repaid in full, are not included in the current definition of forbearance.

2. Exit criteria have been introduced, whereby loans exit forbearance if they meet certain payment and arrears conditions, including a two year probation period post the forbearance event. The previous reporting of renegotiated loans included all balances that had ever been forborne since 2010.

Balances previously reported as re-negotiated at 4 April 2016 were £214 million. Using the current definition, only £84 million of balances were forborne at that date. The changes are summarised below:

	Overdrawn current accounts	**Personal loans**	**Credit cards**	**Total**
	(*£ millions*)			
Re-negotiated balances as previously reported..	34	138	42	214
Changes in reporting definition(1)................	(1)	(107)	—	(108)
Exit criteria for forborne balances	(10)	(1)	(11)	(22)
Forborne balances	**23**	**30**	**31**	**84**

Note:
(1) The amounts removed include all balances that have been subject to these concessions since 2010

5.3 Commercial and other operations loan portfolios

Commercial lending

Commercial lending comprises lending secured on commercial real estate (**CRE Loans**), RSL loans and PFI loans. Nationwide's commercial lending portfolio, excluding fair value adjustments for micro-hedged risk, was £11.2 billion as at 4 April 2017 compared to £11.8 billion as at 4 April 2016 and £13.2 billion as at 4 April 2015. As at 4 April 2017, the portfolio comprised £2.6 billion of CRE Loans, £7.5 billion of RSL loans and £1.1 billion of PFI loans.

Following a strategic review of the commercial lending business, it was concluded that it is no longer a good fit with the core purpose of Nationwide. The strategy for the commercial lending portfolio is to hold and actively manage to maturity in line with contractual terms.

Nationwide believes that its CRE exposure is well spread across geographic regions and sectors. For a breakdown of Nationwide's CRE lending balances and impairment provisions by type and region as at 4 April 2017 and 4 April 2016, see the tables on page 101 of Nationwide's Annual Report and Accounts 2017 which are included in Nationwide's 2017 Financial Statements which are incorporated by reference in this document. For a breakdown of Nationwide's CRE lending balances and impairment provisions by type and region as at 4 April 2015, see the table on page 138 of Nationwide's Annual Report and Accounts 2016 which is included in Nationwide's 2016 Financial Statements which are incorporated by reference in this document.

Impairment provisions are held in relation to both the performing and non-performing segments of the commercial lending portfolio. Provisions reflect losses which have been incurred at the balance sheet date, based on objective evidence. Individual impairment provisions are assigned to facilities exhibiting signs of financial difficulty and a collective provision is assigned to all other accounts. For currently performing loans, the collective provision reflects losses arising from impairment events that have occurred within the portfolio but are not identifiable at the reporting date.

No losses have been experienced on the RSL or PFI portfolios and there is no non-performance within these portfolios. As a result, impairment provisions are only required against the CRE portfolio.

Impaired CRE loans amounted to £45 million as at 4 April 2017 (compared to £171 million as at 4 April 2016 and £608 million as at 4 April 2015) and provisions held against the portfolio amounted to £25 million as at 4 April 2017 (compared to £59 million as at 4 April 2016 and £322 million as at 4 April 2015) representing a coverage ratio of 56 per cent. as at 4 April 2017 (compared to 35 per cent. as at 4 April 2016 and 53 per cent. as at 4 April 2015).

The table below shows Nationwide's impaired CRE balances and the provision coverage against these balances as at 4 April in each of 2017, 2016 and 2015.

	As at 4 April		
	2017	**2016**	**2015**
	(*£ millions, except percentages*)		
Gross balances	2,568	3,009	4,043
Non-performing balances	74	226	685
Impaired balances[(1)]	45	171	608
Impaired balances as a % of gross balances	2%	6%	15%
CRE provisions			
Individual	20	54	313
Collective	5	5	9
Total CRE provisions	**25**	**59**	**322**
CRE provision coverage ratios			
Individual CRE provisions as a % of gross balances	44%	32%	51%
Total CRE provisions as a % of non-performing balances	34%	26%	47%
Total CRE provisions as a % of gross balances	1%	2%	8%

Note:

(1) Impaired loans include those balances which are more than three months in arrears, or against which an individual provision is held.

Total non-performing loans, before provisions, reduced by £152 million in the financial year ended 4 April 2017 to £74 million as at 4 April 2017 and by £459 million in the financial year ended 4 April 2016 to £226 million as at 4 April 2016, with corresponding total impairment reductions of £34 million in the financial year ended 4 April 2017 and £263 million in the financial year ended 4 April 2016, reflecting the managed exit activity, improving book performance and an improvement in market conditions.

Improved CRE market conditions, including increased liquidity and capital values, resulted in a net impairment reversal of £5 million in the financial year ended 4 April 2017. In the financial year ended 4 April 2016, the reversal was £34 million, reflecting higher levels of total impaired balances impacted by improving market conditions and increased levels of recoveries. In the financial year ended 4 April 2015, the impairment charge was £52 million, reflecting accelerated disposals as part of the Group's CRE deleveraging policy.

Estimated (indexed) collateral values in relation to the impaired balances disclosed above amounted to £32 million (71 per cent. of impaired balances) as at 4 April 2017 compared to £133 million (78 per cent. of impaired balances) as at 4 April 2016 and £367 million (60 per cent. of impaired balances) as at 4 April 2015.

Economic uncertainty, ongoing funding pressures across the banking sector and a trend towards higher regulatory capital requirements for CRE lending have significantly reduced the availability of credit for refinance within the sector. Furthermore, current depressed property values mean that foreclosure on loans which are operating outside the original terms of their advance is unlikely to provide the best economic outcome, except in those cases where ongoing serviceability is unachievable and/or the prospects of any recovery in cash flow performance or capital value is unlikely. Nationwide's strategy remains one of prudent loss mitigation over the medium term in a market which is both cyclical and currently experiencing extremely low investor demand. Nationwide makes refinancing available for existing 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 then recognised in accordance with relevant accounting requirements.

Other operations lending

Other lending principally comprises a secured European commercial loan portfolio. The portfolio primarily consists of secured loans relating to a European commercial loan facility which is held by one of the Group's quasi-subsidiaries, Cromarty CLO Ltd (**Cromarty**). The portfolio is in run-off.

Other lending as at 4 April 2017 amounted to £17 million (compared to £20 million as at 4 April 2016 and £29 million as at 4 April 2015). Other lending represented 0.01 per cent. of Nationwide's loans and advances to customers as at 4 April in each of 2017, 2016 and 2015.

Payment due status of commercial and other operations lending portfolios

The following tables set out the payment status of Nationwide's CRE and other lending operations as at 4 April in each 2017, 2016 and 2015.

	As at 4 April					
	2017		**2016**		**2015**	
	(*£ billions, except percentages*)					
Neither past due nor impaired....................	2.5	96%	2.7	92%	3.3	83%
Past due up to 3 months but not impaired...	—	—	0.1	2%	0.1	2%
Impaired..	0.1	4%	0.2	6%	0.6	15%
Total...	**2.6**	**100%**	**3.0**	**100%**	**4.1**	**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 were £nil million as at 4 April 2017 (compared to £5 million as at 4 April 2016 and £10 million as at 4 April 2015).

The table below provides further analysis of the impaired status of Nationwide's commercial and other lending as at 4 April in each of 2017, 2016 and 2015.

	2017		2016		2015	
	(£ millions, except percentages)					
Past due 0 to 3 months	24	53%	115	68%	418	68%
Past due 3 to 6 months	1	2%	21	12%	59	10%
Past due 6 to 12 months	3	7%	4	2%	56	9%
Past due over 12 months	17	38%	28	16%	84	14%
Possessions	0	0%	3	2%	1	0%
Total	**45**	**100%**	**171**	**100%**	**618**	**100%**

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

Possession balances represent loans against which 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 are distributed in accordance with the relevant insolvency regulations. Nationwide does not normally occupy repossessed properties for its business use or use assets obtained in its operations.

Collateral status of commercial and other operations lending portfolios

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

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

The table below quantifies the estimated value of indexed collateral held against non-performing or impaired assets as at 4 April in each of 2017, 2016 and 2015.

	2017		2016		2015	
	(£ millions, except percentages)					
Past due but not impaired	29	100%	55	100%	77	100%
Impaired	32	71%	133	78%	367	60%
Total	**61**	**82%**	**188**	**83%**	**444**	**65%**

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

Nationwide's valuation policy stipulates the maximum period between formal valuations, relative to the risk profile of the lending. Particular attention is paid to the status of the facility concerned, for instance whether it is impaired 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.

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.

LTV of the CRE portfolio

The table below shows Nationwide's CRE portfolio by LTV as at 4 April in each of 2017, 2016 and 2015.

	2017		2016		2015	
	(*£ millions, except percentages*)					
Performing loans						
Fully collateralised						
LTV ratio[(1)]:						
Less than 25%	274		220		321	
25% to 50%	1,239		1,659		1,417	
51% to 75%	893		830		1,208	
76% to 90%	71		62		362	
91% to 100%	10		6		23	
Total	**2,487**	**97%**	**2,777**	**92%**	**3,331**	**82%**
Not fully collateralised						
Over 100% LTV (A)	7	0%	6	0%	27	1%
Collateral value on A	4		4		25	
Negative equity on A	3		2		2	
Total performing loans	**2,494**	**97%**	**2,783**	**92%**	**3,358**	**83%**
Non-performing loans[(2)]						
Fully collateralised						
LTV ratio[(1)]:						
Less than 25%	1		19		1	
25% to 50%	14		24		52	
51% to 75%	13		30		45	
76% to 90%	3		21		50	
91% to 100%	10		6		31	
Total	**41**	**2%**	**100**	**4%**	**179**	**4%**
Not fully collateralised						
Over 100% LTV (A)	33		126		506	
Collateral value on A	20		88		265	
Negative equity on A	13		38		241	
Total performing loans	**74**	**3%**	**226**	**8%**	**685**	**17%**
Total CRE loans	**2,568**	**100%**	**3,009**	**100%**	**4,043**	**100%**

Notes:

(1) 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 collateral valuation. The IPD monthly index is used.

(2) Non-performing loans include impaired loans and loans with arrears of less than three months which are not impaired.

The overall proportion of not fully collateralised non-performing CRE loans reduced to 1 per cent. in the financial year ended 4 April 2017 from 4 per cent. in the financial year ended 4 April 2016 and 13 per cent. in the financial year ended 4 April 2015. The shortfall on collateral for non-performing CRE loans reduced to £13 million as at 4 April 2017 from £38 million as at 4 April 2016 and £241 million as at 4 April 2015. These changes reflect improving book performance and managed exit activity to reduce exposure to assets outside Nationwide's risk appetite or which do not align to its lending strategy.

For a breakdown of Nationwide's CRE lending balances by LTV and region as at 4 April 2017 and 4 April 2016, see the tables on pages 99 and 100 of Nationwide's Annual Report and Accounts 2017 which are included in Nationwide's 2017 Financial Statements which are incorporated by reference in this document. For a breakdown of Nationwide's CRE lending balances by LTV and region as at 4 April 2015, see the table on page 137 of Nationwide's Annual Report and Accounts 2016 which is included in Nationwide's 2016 Financial Statements which are incorporated by reference in this document.

Negative equity in the CRE portfolio

The table below shows the level of negative equity based upon the indexation of property values for non-performing and impaired CRE assets as at 4 April in each of 2017, 2016 and 2015.

	2017	**2016**	**2015**
		(*£ million*)	
Past due but not impaired	—	—	—
Impaired...	13	38	240
Possessions	—	—	1
Total..	**13**	**38**	**241**

Forbearance

Forbearance in the commercial portfolios is recorded and reported at borrower level and applies to all commercial lending including impaired exposures and customers subject to enforcement and recovery action. Impairment provisions on forborne loans are calculated on an individual borrower basis.

For commercial customers in financial difficulty, the following concession events are included within forbearance reporting:

Refinance

Debt restructuring, either mid-term or at maturity, will be considered where asset sales or external refinance cannot be secured to repay facilities in full and where a restructure is considered to provide the best debt recovery outcome for both the customer and Nationwide.

Interest concession

The temporary postponement of interest or a reduction to the interest rate charged, during which period the loans do not accrue arrears, may be considered where the customer is experiencing payment difficulties.

Capital concession

Capital concessions consist of temporary suspensions to capital repayments to allow the customer time to overcome payment difficulties, the full or partial consolidation of previous payment arrears or the partial write-off of debt.

Security amendment

Where a customer seeks the release of assets charged to Nationwide as security for their commercial loan, this will be treated as forbearance where Nationwide's position is weakened in terms of either the loan to value of the remaining exposure or the level of interest cover available.

Extension at maturity

Customers who are unable to repay the loan at term expiry may be given short term maturity extensions to allow them time to negotiate the repayment of facilities in full either via asset sales or external refinance.

Breach of covenant

Where a customer is unable to comply with either financial or non-financial covenants, as specified in the loan agreement, a temporary waiver or amendment to the covenants will be considered, as appropriate.

The table below provides details of the commercial loans which are subject to forbearance as at 4 April 2017 and 2016.

	As at 4 April	
	2017	**2016**
	(*£ millions*)	
Refinance	34	40
Modifications:		
Interest concession	1	2
Capital concession	50	64
Security amendment	56	139
Extension at maturity	126	150
Breach of covenant	80	142
Total	**347**	**537**
Impairment provision on forborne loans	17	41

Note:
Loans where more than one concession event has occurred are reported under the latest event.

Consistent with the European Banking Authority reporting definitions, loans that meet the forbearance exit criteria are not reported as forborne.

Overall, the CRE exposures currently subject to forbearance have reduced to £347 million, principally as a result of the controlled exit from non-core, higher risk loans, and represented 14 per cent. of CRE Loan balances as at 4 April 2017 (compared to 18 per cent. as at 4 April 2016).

There are no instances of forbearance in either the RSL or PFI portfolios.

CRE balances previously reported as subject to forbearance as at 4 April 2016 were £588 million. Updating the prior year figures to fully align to the EBA definitions has resulted in a £51 million revision to balances reported as forborne at 4 April 2016 to £537 million.

5.4 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 each of the financial years ended 4 April 2017, 2016 and 2015.

	Prime residential	**Specialist residential**	**Consumer banking**	**Commercial lending**	**Other lending**	**Total**
			(*£ millions*)			
As at 5 April 2016	25	77	281	59	1	443
Charge for the year	11	47	78	(5)	—	131
Amounts written off during the year	(2)	(15)	(101)	(31)	(1)	(150)
Amounts recovered during the year	1	1	15	3	—	20
Unwind of discount of provision	(1)	—	(4)	(1)	—	(6)
As at 4 April 2017	**34**	**110**	**269**	**25**	**—**	**438**

	Prime residential	**Specialist residential**	**Consumer banking**	**Commercial lending**	**Other lending**	**Total**
			(*£ millions*)			
As at 5 April 2015	22	88	216	322	4	652
Charge for the year	8	10	96	(34)	1	81
Amounts written off during the year	(6)	(23)	(44)	(242)	(4)	(319)
Amounts recovered during the year	1	3	18	20	—	42
Unwind of discount of provision	—	(1)	(5)	(7)	—	(13)
As at 4 April 2016	**25**	**77**	**281**	**59**	**41**	**443**

	Prime residential	**Specialist residential**	**Consumer banking**	**Commercial lending**	**Other lending**	**Total**
			(*£ millions*)			
As at 5 April 2014	18	84	173	1,001	12	1,288
Charge for the year	13	45	89	52	34	233
Amounts written off during the year	(10)	(41)	(56)	(276)	(6)	(389)

Amounts recovered during the year	1	1	15	15	—	32
Disposal	—	—	—	(428)	(36)	(464)
Unwind of discount of provision	—	(1)	(5)	(42)	—	(48)
As at 4 April 2015	**22**	**88**	**216**	**322**	**4**	**652**

The following table sets out Nationwide's allowances for loan losses as a percentage of total loans, analysed by category, as at 4 April in each of 2017, 2016 and 2015.

	As at 4 April		
	2017	**2016**	**2015**
		(*per cent.*)	
Total allowances as a percentage of total loans			
Residential	0.08	0.06	0.07
Commercial	1.00	0.45	2.50
Consumer	6.8	7.83	6.04
Other	—	5.26	16.00
Total loans	**0.23**	**0.25**	**0.39**
Percentage of loans in each category to total loans			
Residential	91.3	90.6	89.3
Commercial	6.7	7.4	8.5
Consumer	2.0	2.0	2.2
Other	—	—	—
Total loans	**100.0**	**100.0**	**100.0**

6. COUNTRY SECTION

The tables below summarise Nationwide's direct exposure to institutions outside the UK as at 4 April 2017 and 4 April 2016. The exposures are shown at their balance sheet carrying values.

	As at 4 April 2017								
	Cash	**Government bonds**	**Mortgage backed securities**	**Covered bonds**	**Supranational bonds**	**Loans to banks**	**Other corporate[1]**	**Other assets**	**Total**
					(*£ millions*)				
Finland		218		24					**242**
France				31			1	54	**86**
Germany		484				44		43	**571**
Ireland	1,258					27			**1,285**
Italy							3		**3**
Netherlands		153	366						**519**
Total Eurozone	**1,258**	**855**	**366**	**55**		**71**	**4**	**97**	**2,706**
USA	16	600	7			474		182	**1,279**
Rest of world[2]				400	459	232			**1,091**
Total	**1,274**	**1,455**	**373**	**455**	**459**	**777**	**4**	**279**	**5,076**

	As at 4 April 2016								
	Cash	**Government bonds**	**Mortgage backed securities**	**Covered bonds**	**Supranational bonds**	**Loans to banks**	**Other corporate**[(1)]	**Other assets**	**Total**
					(£ *millions*)				
Finland		242		23					**265**
France				52		60	4	66	**182**
Germany		365				107	3	102	**577**
Ireland	871					18			**889**
Italy			21				3		**24**
Netherlands		82	385						**467**
Portugal			22						**22**
Spain			85	31					**116**
Total Eurozone	**871**	**689**	**513**	**106**		**185**	**10**	**168**	**2,542**
USA	8	902	35			350		365	**1,660**
Rest of world[(2)]			17	383	522	627			**1,549**
Total	**879**	**1,591**	**565**	**489**	**522**	**1,162**	**10**	**533**	**5,751**

Notes:

(1) Other corporate exposures are held through a European commercial loan facility reported as part of loans and advances to customers.

(2) Rest of world exposure is to Australia, Canada, Denmark, Norway, Sweden and Switzerland.

Nationwide continues to actively manage its exposure to Eurozone countries. During the financial year ended 4 April 2017, Nationwide disposed of its Portuguese and Spanish mortgage backed assets. Cash held in the Republic of Ireland is with the Central Bank of Ireland.

None of the exposures detailed in the table above were in default as at 4 April 2017 although £3 million was in default as at 4 April 2016. No impairment was incurred on any of the detailed in the table above in either of the two financial years covered.

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 financial years ended 4 April 2017, 2016 and 2015, respectively.

	For the financial year ended					
	2017		**2016**		**2015**	
	Average balance	**Average rate paid**	**Average balance**	**Average rate paid**	**Average balance**	**Average rate paid**
	(£ *millions*)	(*per cent.*)	(£ *millions*)	(*per cent.*)	(£ *millions*)	(*per cent.*)
UK retail member deposits	143,208	0.97%	135,258	1.17%	133,095	1.43%
Other customer deposits and amounts due to banks[(1)]	18,525	0.23%	17,043	0.45%	16,676	0.70%

Note:

(1) Amounts owed to other customers include time deposits, call deposits and retail deposits that do not grant "member" status.

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 maturity analysis of Nationwide's time deposits over U.S.$100,000 and certificates of deposit as at 4 April 2017.

	As at 4 April 2017			
	Time deposits	**Certificates of deposit**	**Total**	
		(*£ millions*)		(*per cent.*)
Less than 3 months	1,301	2,166	3,467	45%
3 months to 6 months	865	2,360	3,225	42%
6 months to 1 year	219	827	1,046	13%
Over 1 year	18	—	18	0%
Total	**2,403**	**5,353**	**7,756**	**100%**

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 financial years ended 4 April 2017, 2016 and 2015.

	For the financial year ended 4 April		
	2017	**2016**	**2015**
	(*£ millions, except percentages*)		
Net income(1)	757	985	839
Total average assets(2)	222,847	203,485	195,390
Return on total average assets	0.34%	0.48%	0.43%

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.

As a mutual organisation, other than in respect of a relatively small amount of funding provided by investors in its deferred shares (including its PIBS, additional tier 1 instruments and CCDS), Nationwide is not funded by shareholders, which means that it is managed for the benefit of its members, being its current account, retail savings and residential mortgage customers (as well as the holders of its deferred shares), rather than for equity shareholders. Nationwide returns value to its members by offering generally higher interest rates on savings and lower interest rates on loans than those offered by its main competitors. As a result, Nationwide typically earns lower profits than its main competitors, which are typically banks or other non-mutual organisations. However, most of Nationwide's net earnings are put into reserves and constitute Tier 1 capital for its capital adequacy requirements.

Nationwide does not present its returns on equity because, as a mutual organisation, it does not have equity.

PART XVIII – RISK MANAGEMENT

PRINCIPAL RISKS

As a provider of banking and financial services, all of Nationwide's business activities involve the management of risk. The five principal types of risk inherent within the business, and Nationwide's attitude to managing them, are set out below.

Risk category	Definition	Attitude
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 (such as a bond) on time.	• Nationwide primarily lends on prime residential mortgages and sets prudent limits to control the exposure to other portfolios, such as buy to let and unsecured lending. • The commercial portfolios are being actively managed to maturity, as commercial lending is now closed to new business. Risk management of these portfolios focuses on refinance, extension and concentration risks. • Treasury credit risk is accepted only to support the liquidity strategy; for derivative activities necessary to support the member proposition; and to manage legacy positions.
Financial	The risk of Nationwide having inadequate earnings, cash flow or capital to meet current or future requirements and expectations.	• Financial risks are tightly managed, whilst allowing Nationwide to meet members' needs when designing products and services. • Where residual financial risks exist, sufficient amounts of capital or liquidity are held to mitigate their impact.
Operational	The risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events	• Nationwide operates its business to ensure a minimum level of serious disruption to members, brand and reputation, with systems and services designed to achieve defined levels of availability and performance.
Conduct and compliance	The risk that Nationwide exercises inappropriate judgement or makes errors in the execution of its	• Products and services should meet customer needs and expectations and perform as

	business activities, leading to: • non-compliance with regulation or legislation • market integrity being undermined, or • an unfair outcome being created for customers.	represented. • Sustainable partnerships are built with members and customers by providing the right information at the right time, and value for money products and services. • Customer detriment and/or dissatisfaction is addressed in a timely and fair manner. • Nationwide safeguards personal data, does not exploit asymmetries and does not disadvantage customers or customer segments or take advantage of customer vulnerability. • Nationwide does not conduct or facilitate market abuse or financial crime and does not distort competition.
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.	• Nationwide does not overcommit by targeting too many strategic priorities at any one time, ensuring the most effective and efficient use of its resources. It is committed to a mutual business model that is focused on the provision of retail financial services, almost exclusively in the UK.

The frameworks for managing the risks listed above, including associated risk appetite, limits and supporting policies, are reviewed at least annually, and are subject to continuous monitoring by the relevant governance committees. Each of these risk categories is discussed in more detail below.

TOP AND EMERGING RISKS

In addition to the principal risks listed above that are inherent in Nationwide's business, the top and emerging risks that could affect delivery of Nationwide's strategy are identified and monitored as an integral element of risk management.

Top and emerging risks are closely tracked throughout the governance structure. These risks are kept under close observation through risk reporting.

Following the result of the EU referendum, the impact of the UK's impending exit from the EU is one of the top risks. This is due to the widespread political and economic uncertainty it has caused, which spans all risk categories. In addition to this, risk management activity over the past year has focused on strengthening business resilience and managing the pace of change in the digital and regulatory environments. Nationwide's top and emerging risks fall within the following categories:

Macroeconomic environment

Nationwide monitors global and domestic macroeconomic factors to ensure that it is prepared for their potential impacts. Domestically, the effects of Brexit, the outcome of the recent UK general election and the potential for a second Scottish referendum are focus areas. The impact of the continued low interest rate environment and the risks that it poses to the business model are closely monitored. The Board also discusses the potential risks to economic growth and stability within financial markets that would be posed by a Eurozone financial crisis, geopolitical instability or a downturn in China or emerging markets.

The result of the Brexit vote has caused political and economic uncertainty. Whilst UK growth projections recovered following their initial post-referendum fall and the UK regulators made no immediate changes to their objectives or policies, there have been indications during Summer 2017 that UK economic growth may be slowing, resulting in a downward adjustment in the BoE's UK growth forecast for 2017. Nevertheless, a number of key initiatives from the European Commission are in flight and it is expected that these will transpose into UK law despite a vote to leave. Nationwide is well placed to respond to and implement the requirements resulting from these initiatives, and will continue to monitor this position and any associated impacts.

Cyber security, data protection and operational resilience

With increasingly sophisticated cyber security compromises being reported within both financial and non-financial sectors, Nationwide is alert to the risks posed by breaches of its cyber defences. Cyber security remains a high priority and Nationwide will continue to focus on improving the awareness of its customers and employees, as well as continuing to build its understanding of the developing threats, its defences and its resilience to cyber attacks.

Members' data is safeguarded by investing heavily to maintain and protect systems. To date, Nationwide has successfully defended against data breaches, and continues to ensure that developments are up to date so that members continue to receive the protection that they expect.

In an increasingly digital world, there is pressure to manage considerably larger volumes of data securely and effectively. Nationwide operates a dedicated operational resilience function to ensure it meets member expectations for secure, highly reliable and widely available services.

The pace of change in the digital and regulatory environments

Over recent years there has been a dramatic increase in the demand for digital products and services due to the convenience that they can bring. This has seen an influx of innovative new offerings in the market place and the number of challenger banks and Fintech disruptors has increased. Collectively the changes may pose a challenge to Nationwide's core markets and product pricing. The Board continues to monitor the possible impact on Nationwide's business model, and continues to invest heavily in its digital channels and new payment technologies.

Open Banking

Changes in regulation and the resulting impact on the competitive environment from, amongst other things, Open Banking and ring fencing of the major UK banks, continue to be considered by the Board. Open Banking has the potential to significantly disrupt traditional personal financial services models and to radically reshape the banking landscape in the UK (see "*Part II - Risk Factors —Competition in the UK personal financial services markets may adversely affect Nationwide's operations*" for further information). Nationwide is well placed to respond to these complex regulatory changes, and to provide a variety of products and services which are designed to meet customers' needs. The Board will continue to review Nationwide's ability to respond in an efficient and agile manner.

MANAGING RISK

Effective risk management is at the heart of the business, supporting the delivery of Nationwide's strategy by ensuring it continues to be safe and sustainable and ultimately protecting members' interests. The Society adopts an enterprise-wide risk management framework underpinned by the three lines of defence model to manage its risks effectively.

Enterprise risk management framework (ERMF)

The ERMF sets out the high-level policy, standards and requirements for the management of all risks, as shown in the table below.

External environment	Nationwide's risk management agenda is shaped by external environmental factors, including but not limited to regulatory, competitive, market, economic, political, technological, demographic and social factors.
Building society, nationwide	Nationwide's core purpose sets its ambitions and informs its strategy and attitude to risks.
Culture	Having the right culture supports risk management activity across the business. Nationwide's culture and PRIDE values ensure that members' interests, safety and security are put at the heart of its approach to risk management.
Board appetite for risk	Board appetite for risk defines how much risk the Board is prepared to take in pursuit of the Society's goals, and establishes a framework for decision making. It is supported by metrics and limits which enable performance against appetite to be effectively reported. Board appetite for risk is informed by, and informs, Nationwide's strategy.
Risk strategies and control frameworks	The Board approves the risk management strategies and control frameworks that management use to ensure that major risks remain within Board appetite for risk.
Local management of risk	Local management of risk is the process of identifying, assessing, managing, monitoring and reporting risks. Risk management activity is carried out by all employees to ensure that risks which are part of their day-to-day jobs are properly identified and controlled. As part of this, the Society undertakes stress testing and scenario analysis to ensure that it understands and remains resilient to the impact of remote, but potentially severe, risks. Further details of stress testing can be found under "*Liquidity and funding risk*" and "*Solvency risk*" below.
Governance and assurance	Governance and assurance describes the risk committee structures and mandates, and ensures that roles and responsibilities are clear and operate within the Society's three lines of defence model, which is described below.
Risk and control reporting	Risk and control reporting enables the Board to ensure that risk management and internal control systems are operating adequately and that risks are being managed within risk appetite.

Nationwide's three lines of defence model

Nationwide operates a three lines of defence model, ensuring clear separation between risk and control ownership (first line), oversight, support and challenge (second line) and audit assurance (third line). Accountabilities within the three lines of defence model are outlined in the table below.

First line **Risk and control ownership**	**Second line** **Oversight, support and challenge**	**Third line - Assurance**
	Specific accountabilities include:	
• Setting business objectives • Defining management risk appetite	• Providing expert advice on business initiatives • Advising the Board on setting risk appetite	• Performing independent audits of the effectiveness of first line risk and control and second line risk oversight, support and

- Identifying, owning and managing risks
- Defining, operating and testing controls
- Implementing and maintaining regulatory compliance
- Adhering to the minimum standards set out in the risk management framework and associated policies
- Identifying future threats and risks

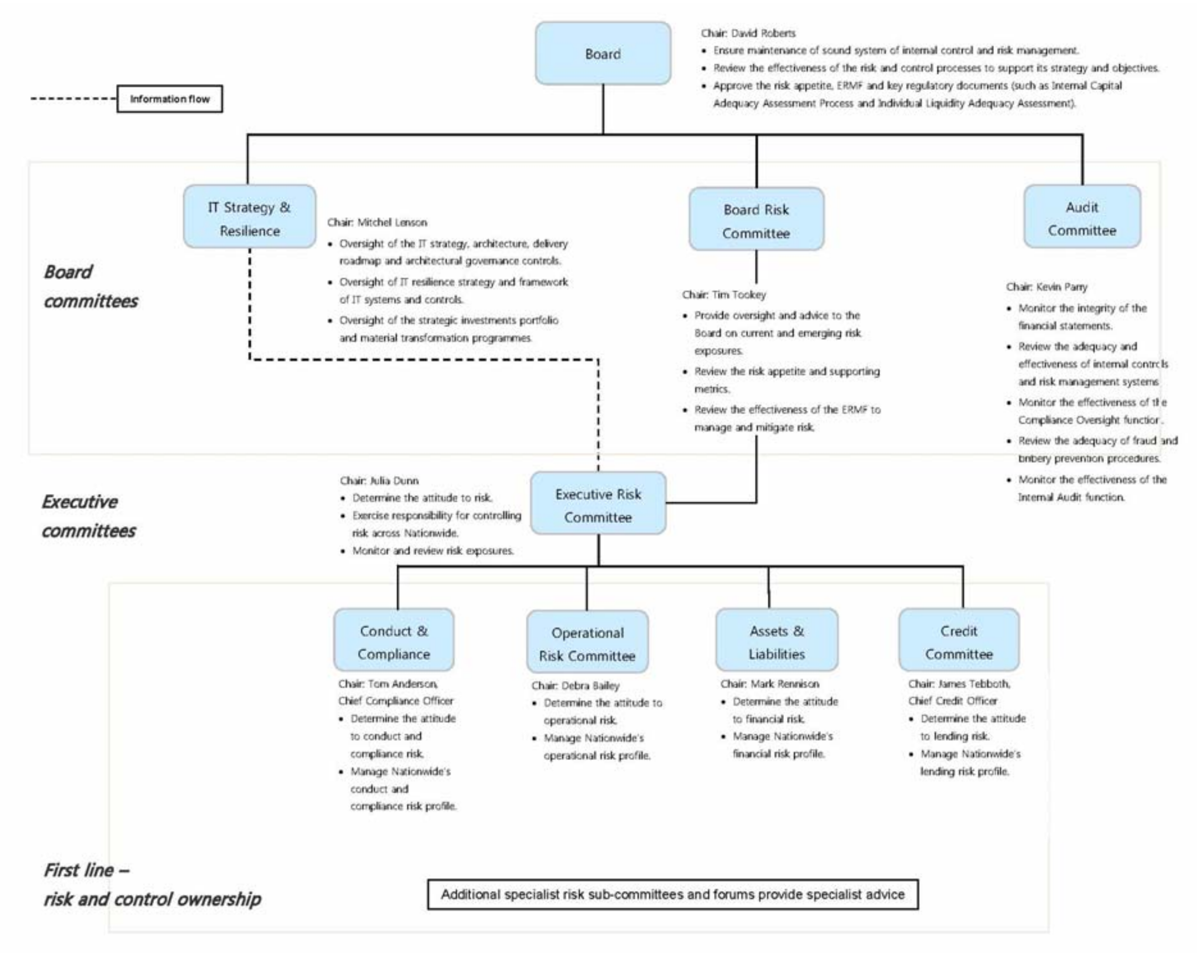
- Reporting aggregate enterprise level risks to the Board
- Conducting independent and risk-based assurance
- Interpreting material regulatory change
- Setting the risk management framework and associated policies
- Identifying future threats and risks

challenge

- Taking a risk-based approach to the programme of audit work
- Preparing an annual opinion on the risk management and controls framework to present to the Audit Committee

Risk committee structure

The Board Risk Committee and Audit Committee provide oversight and advice to the Board. The Executive Risk Committee ensures a co-ordinated management approach across all risk categories. The risk committee structure is represented in the following diagram.



LENDING RISK

Lending risk is the risk that a borrower or counterparty fails to pay interest or to repay the principal on a loan or other financial instrument (such as a bond) on time. Lending risk also encompasses extension risk and concentration risk.

Nationwide manages lending risk for each of the following portfolios:

- Residential mortgages - loans secured on residential property. Nationwide manages prime and specialist lending separately;

- Consumer banking - unsecured lending including current account overdrafts, personal loans and credit cards;

- Commercial lending - loans to registered social landlords, loans made under the private finance initiative (**PFI loans**) and commercial real estate lending; and

- Treasury - Treasury liquidity, derivatives and discretionary portfolios.

In addition, a small other lending portfolio is held of £17 million as at 4 April 2017 which primarily includes £8 million of deferred consideration relating to an investment in Visa Inc and £5 million of collateral to support repurchase transactions. There is no significant exposure to lending risk on this portfolio.

Maximum exposure to lending risk

Lending risk largely arises from exposure to loans and advances to customers, which as at 4 April 2017 accounted for 85.9 per cent. of Nationwide's total lending risk exposure. Within this, exposure relates primarily to residential mortgages, which accounted for 91.4 per cent. of total loans and advances to customers as at 4 April 2017 and which have a low risk profile (as demonstrated by a low level of arrears compared to the industry average).

In addition to loans and advances to customers, Nationwide is exposed to lending risk on all other financial assets. For financial assets recognised on the balance sheet, the maximum exposure to lending risk represents the balance sheet carrying value after allowance for impairment. For off-balance sheet guarantees, the maximum exposure is the maximum amount that Nationwide would have to pay if the guarantees were to be called upon. For loan commitments and other credit related commitments that are irrevocable over the life of the respective facilities, the maximum exposure is the full amount of the committed facilities.

Nationwide's maximum exposure to lending risk was £207 billion as at 4 April 2015 and rose to £220 billion as at 4 April 2016 and £234 billion as at 4 April 2017. In each case, the increase principally reflected growth in residential mortgage loans as well as, in 2016, an increase in the Group's holding of liquidity assets reflecting the transition to LCR requirements and a decision to pre-fund long-term wholesale maturities.

For a breakdown of Nationwide's maximum exposure to lending risk as at 4 April 2017 and 4 April 2016, see the tables on page 84 of Nationwide's Annual Report and Accounts 2017 which are included in Nationwide's 2017 Financial Statements which are incorporated by reference in this document. For a breakdown of Nationwide's maximum exposure to lending risk as at 4 April 2015, see the table on page 113 of Nationwide's Annual Report and Accounts 2016 which is included in Nationwide's 2016 Financial Statements which are incorporated by reference in this document.

Residential mortgages

Nationwide's residential mortgages include both prime and specialist loans. Prime residential mortgages are mainly Nationwide branded advances made through the branch network and intermediary channels. Specialist lending consists of buy to let mortgages originated under TMW brand.

Nationwide believes that residential mortgage lending has a low risk profile as demonstrated by a low level of arrears compared to the industry average. Nationwide's residential mortgages portfolio comprises many relatively small loans which are broadly homogenous, have low volatility of credit risk outcomes and are diversified in terms of the UK market and geographic segments. Nationwide controls its residential mortgage lending risk through the application of credit criteria designed to restrict the maximum loan size at higher loan to value (**LTV**), robust affordability calculations and a credit scoring framework that regulates higher LTV exposures. Portfolio performance is closely measured and monitored against approved risk appetite limits.

The geographical distribution of the residential mortgage portfolio across the UK remained stable across the three financial years to 4 April 2017 and the average LTV, weighted by value, was 55 per cent. as at 4 April 2017 and 4 April 2017 and 56 per cent. as at 4 April 2015. Support for first time buyers has seen the proportion of new lending made to this segment increase to 36 per cent. as at 4 April 2017, from 28 per cent. as at 4 April 2016 and 26 per cent. as at 4 April 2015. This has contributed to a rise in the average LTV of new lending to 71 per cent. as at 4 April 2017 compared to 69 per cent. as at each of 4 April 2016 and 4 April 2015 and growth in the proportion of the portfolio with an LTV above 80 per cent., rising to 9.6 per cent. as at 4 April 2017 from 8.5 per cent. as at 4 April 2016 and 8.8 per cent. as at 4 April 2015. It is also one of the factors that led to an increase in the proportion of new lending being written at income multiples of 4.5 or greater which rose to 10.6 per cent. as at 4 April 2017 from 7.0 per cent. as at 4 April 2016 and 4.9 per cent. as at 4 April 2015.

In contrast the proportion of lending made to the buy to let segment reduced to 14 per cent. as at 4 April 2017 from 22 per cent. as at 4 April 2016 and 18 per cent. as at 4 April 2015. The reduction during the financial year ended 4 April 2017 reflected a decision taken in May 2016 to increase the minimum interest cover ratio (**ICR**) requirement from 125 per cent. to 145 per cent. and to reduce the maximum LTV from 80 per cent. to 75 per cent. These steps were taken in response to announced changes to the income tax relief available for buy to let borrowers which are being phased in between April 2017 and March 2021 and are expected to materially affect the cash flow and affordability for some landlords. The lending policy changes are designed to ensure buy to let borrowing remains sustainable and affordable for Nationwide's borrowers. In May 2017, Nationwide reintroduced 125 per cent. ICR lending for basic rate taxpayers to recognise the lower impact of the announced tax changes on these borrowers.

Arrears levels remain low across prime and specialist residential lending, reflecting the favourable economic conditions and low interest rate environment and supported by robust credit assessment and affordability controls at the point of lending. The proportion of loans more than three months in arrears was 0.45 per cent. as at 4 April 2017 and as at 4 April 2016 and was 0.49 per cent. as at 4 April 2015, in each case significantly below the CML averages which were 0.91 per cent. as at 4 April 2017, 1.04 per cent. as at 4 April 2016 and 1.30 per cent. as at 4 April 2015. With the immediate outlook for the UK less certain and the buy to let market facing increased costs and potentially less investor demand, Nationwide expects a very gradual rise in arrears from these low levels.

The proportion of non-performing loans in the residential mortgage portfolio was 1.6 per cent. as at 4 April 2017, down from 2.0 per cent., as at 4 April 2016 and 2.3 per cent. as at 4 April 2015 while provisions for impairment increased during the financial year ended 4 April 2017 as a result of enhancements to the provision methodology and assumptions to ensure they continue to reflect appropriately the incurred losses within each portfolio. These enhancements, which resulted in an additional £45 million of impairment charge, reflect the extended period for arrears to arise from a loss event and the risks associated with the ability of borrowers to repay capital balances at the maturity of interest only loans. In the financial year ended 4 April 2016, provisions for impairment fell by £8 million, notwithstanding an increase in the provision for losses which have been incurred but not specifically reported at the balance sheet date.

For further discussion of Nationwide's residential mortgage lending, see section 5.1 (*Residential mortgage lending*) in "*Part XVII: Selected Statistical Information*".

Consumer banking

The consumer banking portfolio comprises balances on unsecured retail banking products, specifically overdrawn current accounts, personal loans and credit cards. Despite continued intense competition, total balances across these portfolios grew by 2 per cent. during the financial year ended 4 April 2017 and by 2.1 per cent. during the financial year ended 4 April 2016 from £3,575 million as at 4 April 2015 to £3,588 million as at 4 April 2016 and £3,680 million as at 4 April 2017. This growth has been achieved by maintaining focus on meeting more member needs, with the successful launch of a student account and continued enhancement of digital services.

Asset quality on the unsecured portfolios remains strong, benefiting from proactive risk management practices and continued low interest rates. Non-performing balances (excluding charged off accounts) remained stable in the financial year ended 4 April 2017 and fell by 13.5 per cent. in the financial year ended 4 April 2016 as a result of previous policy and pricing changes and a favourable economic environment. Charged off balances fell by 13 per cent. to £174 million as at 4 April 2017 from £197 million as at 4 April 2016 and increased by 29 per cent. from £153 million as at 4 April 2015. Forbearance levels reduced by 10 per cent. to £76 million as at 4 April 2017 from £84 million as at 4 April 2016. Forbearance levels in 2016 and 2015 were substantially consistent.

Impairment provisions are held against both performing and non-performing segments of the consumer banking portfolio. In the financial year ended 4 April 2016, due to the prolonged low interest environment and the associated improvement in portfolio performance, the Group conducted a comprehensive review of its credit risk impairment assumptions which resulted in an increase of total provisions to £281 million as at 4 April 2016 from £216 million as at 4 April 2015 and an increased provision coverage on non-performing loans (including charged off balances) from 67 per cent. to 81 per cent. In the financial year ended 4 April 2017, the provision methodology was further updated, with provision coverage again increasing to recognise the impact of prolonged low interest rates and the favourable economic environment potentially dampening the emergence of arrears. Across the consumer banking portfolios this increased provision coverage on non-performing loans (including charged off balances) by 5 per cent. to 86 per cent.

Lending risk on the consumer banking portfolios is primarily monitored and reported based on delinquency status, since no security is held against the loans. Impaired accounts are defined as those greater than three months in arrears. Non-performing accounts include all impaired loans and loans which are past due but not impaired, including any loan where a payment due is received late or missed. The non-performing loan amount represents the entire loan rather than just the payment overdue.

The performance of the portfolios is closely monitored, with corrective action taken when appropriate to ensure adherence with risk appetite.

Impairment provisions are held for both the performing and non-performing segments of the consumer banking portfolio and provisions reflect losses which have been incurred at the balance sheet date, based on objective evidence. For performing loans, the impairment provision reflects the assessment of losses arising from events that have occurred but which have not been specifically identified at the reporting date.

For further discussion of Nationwide's consumer banking lending, see section 5.2 (*Consumer lending*) in "*Part XVII: Selected Statistical Information*".

Commercial lending

The commercial loan portfolio comprises:

- Commercial real estate (**CRE**) loans;
- Loans to registered social landlords which are secured on residential property; and
- Project finance loans which are secured on cash flows from government or local authority backed contracts.

The Group has been reducing its commercial real estate loans for some time. Following a strategic review of the commercial lending business in the financial year ended 4 April 2017, Nationwide concluded that its commercial loan portfolio is no longer a good fit with the core purpose of Nationwide. As a result, the strategy for the commercial lending portfolio is to hold and actively manage to maturity in line with contractual terms.

Lending risk in the commercial loan portfolio is linked to delinquency and the availability of collateral to cover any loan balances. Nationwide adopts robust credit management policies and processes designed to recognise and manage the risks arising, or likely to arise, from the portfolio.

The lending risk in the CRE portfolio continues to reduce as the portfolio of loans contracts and the volume of non-performing loans reduces and real estate market conditions continue to be favourable.

The registered social landlord portfolio is risk rated using internal rating models with the major drivers being financial strength, independent viability assessment ratings provided by the Homes and Communities Agency and the type and size of the registered social landlord. The distribution of exposures is weighted more towards the stronger risk ratings and, against a backdrop of a long history of zero defaults, the risk profile of the portfolio remains low.

The project finance portfolio is secured against contractual cash flows from projects procured under the Private Finance Initiative rather than physical assets. The majority of loans are secured on projects which are now operational and benefiting from secure long term cash flows, with only one case, with a balance of £24 million, remaining in the construction phase.

For further discussion of Nationwide's commercial lending, see section 5.1 (*Commercial lending*) in "*Part XVII: Selected Statistical Information*".

Treasury assets

The Treasury portfolio is held primarily for liquidity management and, in the case of derivatives, for market risk management. As at 4 April 2017, treasury assets represented 13.7 per cent. of total assets compared to 12.9 per cent. as at 4 April 2016 and 11.3 per cent. as at 4 April 2015.

The table below shows treasury asset balances as at 4 April in each of 2017, 2016 and 2015.

	As at 4 April		
	2017	**2016**	**2015**
		(*£ millions*)	
Cash	13,017	8,797	4,325
Loans and advances to banks	2,587	3,591	3,392
Investment securities	9,831	10,738	11,063
Treasury liquidity and investment portfolio	**25,435**	**23,126**	**18,780**
Derivative assets	5,043	3,898	3,337
Total treasury assets	**30,478**	**27,024**	**22,117**

The net increases in the portfolio in 2016 and 2017 is predominantly due to increases in cash balances. In 2017, this followed the replacement of the BoE's FLS, under which Nationwide received treasury bills that were held off-balance sheet, with the TFS, under which cash is received. In 2016, the increase was driven by Nationwide holding higher cash balances as a strategic response to potential market volatility ahead of the UK's EU-exit referendum in June 2016.

In line with the Board's liquidity risk appetite, investment activity is restricted to high quality liquid securities comprising central bank reserves and highly rated debt securities issued by a limited range of governments, multilateral development banks (**supranationals**) and government guaranteed agencies. In addition, cash is invested in highly rated liquid assets that are eligible for accessing central bank funding operations.

The total balance of out of policy legacy assets (investment securities acquired prior to the financial crisis and no longer within approved risk appetite) has been reduced from £630 million as at 4 April 2015 to £423 million as at 4 April 2016 and £172 million as at 4 April 2017, primarily through ongoing sales, maturities and amortisation. A £9 million impairment charge was recognised during the financial year ended 4 April 2017 compared to an £8 million reversal in the financial year ended 4 April 2016 and an £18 million charge in the financial year ended 4 April 2015.

Derivatives are used to reduce exposure to market risks but are not used for trading or speculative purposes. There are no exposures to emerging markets, hedge funds or credit default swaps.

Credit risk within the Treasury portfolio arises primarily from the instruments held by Treasury for operational, liquidity and investment purposes. The Treasury Credit Risk function manages all aspects of credit risk in accordance with the risk governance framework, under the supervision of the Credit Committee.

An established governance structure exists to identify and review under-performing assets and assess the likelihood of future losses. A monthly review is undertaken of the current and expected future performance of all Treasury assets. Collateral held as security for Treasury assets is determined by the nature of the instrument. Treasury's liquidity portfolio assets are generally unsecured; however, reverse repos, asset-backed securities and similar instruments are secured by pools of financial assets.

Assets are impaired where there is objective evidence that current events and/or performance will result in a loss. Impairment assessments evaluate, among other factors, volatility in valuation, evidence of deterioration in the financial health of the obligor, industry and sectoral performance, and underlying cash flows.

In addition, counterparty credit risk arises from the use of derivatives; these are only traded with highly-rated organisations and are collateralised under market standard documentation.

Derivatives are used to reduce Nationwide's exposure to market risks, although the application of accounting rules can create volatility in the income statement in a financial year. The fair value of derivative assets and liabilities as at 4 April 2017 was £5.0 billion and £3.2 billion, respectively, compared to £3.9 billion and £3.5 billion, respectively, as at 4 April 2016 and £3.3 billion and £4.0 billion, respectively, as at 4 April 2015.

The International Swaps and Derivatives Association (**ISDA**) Master Agreement is Nationwide's preferred agreement for documenting derivative transactions. A Credit Support Annex (**CSA**) is always executed in conjunction with the ISDA Master Agreement. Under the terms of a CSA, collateral is passed between parties to mitigate the market-contingent counterparty risk inherent in the outstanding positions. CSAs are two way agreements where both parties post collateral dependent on the exposure of the derivative. Collateral is paid or received on a regular basis (typically daily) to mitigate the mark to market exposures on derivatives.

Nationwide's CSA legal documentation for derivatives grants legal rights of set off for transactions with the same overall counterparty. Accordingly, the credit risk associated with such positions is reduced to the extent that negative mark to market values offset positive mark to market values in the calculation of credit risk within each netting agreement.

Under the terms of CSA netting arrangements, outstanding transactions with the same counterparty can be offset and settled net following a default, or another predetermined event. Under Nationwide's CSA arrangements, netting benefits of £2.2 billion and collateral of £2.8 billion were held as at 4 April 2017 compared to netting benefits of £2.0 billion and collateral of £2.8 billion as at 4 April 2016 and netting benefits of £1.9 billion and collateral of £1.3 billion as at 4 April 2015.

To comply with EU regulatory requirements, Nationwide has indirect clearing arrangements with a central counterparty which it uses to clear standardised derivatives.

The table below shows the exposure to counterparty credit risk for derivative contracts after netting benefits and collateral as at 4 April in each of 2017, 2016 and 2015.

	As at 4 April									
	2017				**2016**			**2015**		
Counterparty credit quality	**AA**	**A**	**BBB**	**Total**	**AA**	**A**	**Total**	**AA**	**A**	**Total**
					(£ billions)					
Gross positive fair value of contracts	2.1	2.6	0.4	5.0	1.1	2.8	3.9	0.4	2.9	3.3
Netting benefits..............	(0.8)	(1.0)	(0.4)	(2.2)	(0.5)	(1.5)	(2.0)	(o.3)	(1.6)	(1.9)
Net current credit exposure........................	**1.3**	**1.5**	**0.0**	**2.8**	**0.6**	**1.3**	**1.9**	**0.1**	**1.3**	**1.4**

Collateral held................	(1.3)	(1.5)	(0.0)	(2.8)	(0.6)	(1.2)	(1.8)	(0.1)	(1.2)	(1.3)
Net derivative credit exposure........................	**0.0**	**0.0**	**—**	**0.0**	**—**	**0.1**	**0.1**	**—**	**0.1**	**0.1**

For further discussion of Nationwide's treasury assets, see section 9.8 (*Treasury assets*) of "*Part XV: Operating and Financial Review*".

FINANCIAL RISK

Nationwide is exposed to five categories of financial risk:

- liquidity and funding;
- solvency;
- market;
- pension; and
- earnings.

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 Building Societies Act, Section 9A) and for asset classes that may be classified as liquidity.

Liquidity and funding risk

Liquidity risk is the risk that Nationwide is unable to meet its liabilities as they fall due and maintain member and stakeholder confidence. Funding risk is the risk that Nationwide is unable to maintain diverse funding sources in wholesale and retail markets and manage retail funding risk that can arise from excessive concentrations of higher risk deposits.

Management of liquidity and funding risks

Nationwide manages its liquidity and funding risks within a comprehensive risk framework which includes its policy, strategy, limit setting and monitoring, stress testing and robust governance controls. This framework ensures that Nationwide maintains a stable and diverse funding base and sufficient holdings of high-quality liquid assets, so that there is no significant risk that liabilities cannot be met as they fall due.

Nationwide's management of liquidity and funding risks aims to ensure that at all times there are sufficient liquid assets, both as to amount and quality, to:

- cover cash flow mismatches and fluctuations in funding;
- retain public confidence; and
- meet financial obligations as they fall due, even during episodes of stress.

This is achieved through the management and stress testing of business cash flows, and through the translation of Board risk appetite into appropriate risk limits. This ensures a prudent funding mix and maturity profile, sufficient levels of high quality liquid assets and appropriate encumbrance levels are maintained.

The Liquidity and Funding risk framework is reviewed by the Board as part of the annual Internal Liquidity Adequacy Assessment Process (**ILAAP**). ALCO is responsible for managing the balance sheet structure, including the funding plan and its risks. This includes setting and monitoring more granular limits within Board limits. A consolidated cash flow forecast is maintained and reviewed weekly to support ALCO in monitoring key risk metrics.

A Liquidity Contingency Plan (**LCP**) is maintained which describes early warning triggers for indicating an emerging liquidity or funding stress as well as escalation procedures and a range of actions that could be taken in response to ensure sufficient liquidity is maintained. The LCP is tested annually to ensure it remains robust.

Nationwide also has a recovery plan which describes potential actions that could be utilised in a more extreme stress.

Monitoring of liquidity and funding risks

Nationwide monitors its position relative to internal risk appetite and the regulatory short term liquidity stress metric, the LCR, which ensures that sufficient high quality liquid assets are held to survive a short term severe but plausible liquidity stress.

The Group's LCR as at 4 April 2017 was 124.0 per cent. compared to 142.6 per cent. as at 4 April 2016 and 119.3 per cent. as at 4 April 2015, reflecting its strategy of maintaining the LCR above 100 per cent. The decrease in the LCR in the financial year ended 4 April 2017 reflects the inclusion of additional outflows in the LCR following the finalisation of new Pillar 1 requirements and the impact of a one-off item in respect of Nationwide's commitment to acquire financial assets. On a like-for-like basis, the LCR remained broadly consistent with that for the financial year ended 4 April 2016.

Nationwide also monitors its position against the future longer-term regulatory funding metric, the Net Stable Funding Ratio (the **NSFR**). Based on current interpretations of regulatory requirements and guidance, the NSFR as at 4 April 2017 was 132.6 per cent. compared to 127.9 per cent. as at 4 April 2016 and 121.9 per cent. as at 4 April 2015, in each case exceeding the expected 100 per cent. minimum future requirement.

Funding strategy

Nationwide's funding strategy is to remain predominantly retail funded; retail customer loans and advances are therefore largely funded by customer deposits. Non-retail lending, including treasury assets and commercial customer loans, are largely funded by wholesale debt. The wholesale funding portfolio is made up of a range of secured and unsecured instruments to ensure Nationwide has a diversified funding base across a range of instruments, currencies, maturities and investor types. Nationwide's wholesale funding strategy is to remain active in core markets and currencies.

To mitigate cross-currency refinancing risk, Nationwide ensures it holds liquidity in each currency to cover at least the next ten business days of wholesale funding maturities.

Liquidity strategy

Nationwide ensures it has sufficient liquid assets, in terms of both amount and quality, to meet daily cash flow needs as well as stressed requirements driven by internal and regulatory liquidity assessments. The composition of the liquid asset buffer is subject to limits, set by the Board and the ALCO, in relation to issuer, currency and asset type.

Nationwide's liquid assets are held and managed centrally by its Treasury function. Nationwide maintains a high quality liquidity portfolio, predominantly comprising:

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

Nationwide also holds a portfolio of high quality, central bank eligible covered bonds, RMBS and asset-backed securities. Other securities are held that are not eligible for central bank operations but can be monetised through repurchase (**repo**) agreements with third parties or through sale.

Nationwide undertakes securities financing transactions in the form of repo agreements. This demonstrates the liquid nature of the assets held in its liquid asset buffer and also satisfies regulatory requirements. Cash is borrowed in return for pledging assets as collateral and because settlement is on a simultaneous delivery versus payment basis, the main credit risk arises from intra-day changes in the value of the collateral. This is largely mitigated by Nationwide's collateral management processes.

Repo market capacity is assessed and tested regularly to ensure there is sufficient capacity to rapidly monetise the liquid asset buffer in a stress.

For contingent purposes, Nationwide pre-positions unencumbered mortgage assets at the Bank of England which can be used in the BoE's liquidity operations if market liquidity is severely disrupted.

Liquidity stress testing

To mitigate liquidity and funding risks generated by its business activities, Nationwide aims to maintain a liquid asset buffer of at least 100 per cent. of the anticipated outflows seen under internal stress test scenarios and the regulatory-prescribed LCR.

Potential contractual and behavioural stress outflows are assessed across a range of liquidity risk drivers over 30 business days, with the key assumptions shown below. A three month assessment is also performed against which LCP capacity is assessed. Internal stress assumptions are reviewed regularly with changes approved by ALCO, and approved annually by the Board as part of the ILAAP.

Liquidity risk driver	Modelling assumptions used
Retail funding	Significant unexpected outflows are experienced with no new deposits received.
Wholesale funding	Zero rollover of maturing long term wholesale funding and only partial rollover of certain short term funding following credit rating downgrades. No new wholesale funding is received.
Off-balance sheet	Contractual outflows occur in relation to secured funding programmes due to credit rating downgrades.
	Lending commitments continue to be met.
	Collateral outflows arise due to adverse movements in market rates.
	Inflows from mortgages or retail and commercial loans are assessed on a behavioural basis.
Intra-day	Liquidity is needed to pre-fund outgoing payments.
Liquid assets	Asset values are reduced in recognition of the stressed conditions assumed.

As at 4 April 2017, potential stressed net outflows under the most severe 30 business day stress test (a combined market-wide and Nationwide-specific stress scenario) were modelled at £22.1 billion compared to £22.6 billion as at 4 April 2016 and £18.9 billion as at 4 April 2015. The liquid asset buffer as a percentage of stressed net outflows equated to 118 per cent. as at 4 April 2017, 114 per cent. as at 4 April 2016 and 133 per cent. as at 4 April 2015.

Solvency risk

Solvency risk is the risk that Nationwide fails to maintain sufficient capital to absorb losses throughout a full economic cycle and sufficient to maintain the confidence of current and prospective investors, members, the Board and regulators. Capital is held to protect members, cover inherent risks, provide a buffer for stress events and support the business strategy. In assessing the adequacy of capital resources, risk appetite is considered in the context of the material risks to which Nationwide is exposed and the appropriate strategies required to manage those risks.

The capital structure is managed to ensure that Nationwide continues to meet minimum regulatory requirements, as well as meeting the expectations of other key stakeholders. As part of the risk appetite framework, Nationwide targets capital ratios in excess of regulatory requirements. Any planned changes to the balance sheet, potential regulatory developments and other factors (such as trading outlook, movements in the available for sale reserve and defined benefit pension deficit) are all considered. Nationwide's current strategic capital target is to maintain a UK leverage ratio in excess of 4.0 per cent., and this is subject to periodic review in line with current and anticipated regulatory and economic requirements.

The capital strategy is to manage capital ratios through retained earnings, supplemented by external capital where appropriate. With general reserves forming the majority of capital resources, profitability is an important factor when considering the ability to meet capital requirements. A return on capital framework is in place, based upon an allocation of overall capital requirements, which is part of the performance monitoring activity for individual product segments. In recent years, Nationwide's ability to supplement retained earnings through the issuance of CET1, Additional Tier 1 and Tier 2 capital instruments has been demonstrated, and its non-core portfolios have been significantly deleveraged.

Capital is held to meet Pillar 1 requirements for credit, operational and market risks. In addition, the PRA requires firms to hold capital to meet Pillar 2A requirements, which are set out in the Individual Capital Guidance (**ICG**). This is a point in time estimate, set by the PRA on an annual basis, of the amount of capital required to be held to meet risks partly covered by Pillar 1 such as credit concentration and operational risk, and risks not covered by Pillar 1 such as pension and interest rate risk.

In order to protect against the risk of consuming Pillar 1 or Pillar 2A requirements (thereby breaching ICG), firms are subject to regulatory capital buffers which are set out in CRD IV. In addition, the PRA may set a firm-specific buffer based upon supervisory judgement informed by the impact of stress scenarios on a firm's capital requirements and resources, and taking into account other factors including leverage, systemic importance and any weaknesses in firms' risk management and governance procedures.

A regular Internal Capital Adequacy Assessment Process (**ICAAP**) is also undertaken. This considers the minimum amount of capital to be held in order to cover all risks including credit risks, operational risks, interest rate risks in the banking book and pension risks. It also considers an additional buffer to ensure that the impact of a severe but plausible stress can be absorbed. As a result of this internal assessment, the PRA sets Nationwide's Pillar 2 capital requirements.

Regular stress tests are undertaken, covering the Society and its subsidiaries, to enhance the understanding of potential vulnerabilities and how management actions might be deployed in the event of stressed conditions developing. These stress tests project capital resources and requirements over a five-year period, during severe but plausible scenarios that cover a range of macro-economic or market-wide scenarios, and idiosyncratic scenarios that test particular risks to the business model. Stress test results are reported to the Board Risk Committee.

Nationwide aims to be in a position where it would maintain adequate capital and leverage ratios in the event of a severe but plausible economic or idiosyncratic stress. Embedded in the risk appetite framework is an expectation to maintain the CET1 and leverage ratios in excess of regulatory minima, including through a period of financial stress, and including buffers where appropriate.

A set of management actions is maintained that would be available in the event of a breach of one or more of the risk metrics, to support the capital position. In a more severe stress, Nationwide would consider the implementation of its Recovery Plan, maintained under UK regulatory rules implementing the European Bank Recovery and Resolution Directive (**BRRD**), which documents a broad range of management actions. In addition, reverse stress testing is carried out using extreme, highly improbable scenarios to further test the viability of Nationwide's business model.

During each of 2015 and 2016, the major UK banks and building societies, including Nationwide, took part in the PRA's annual Concurrent Stress Test (**CST**), which assesses firms' resilience to a severe global downturn. The 2016 CST specified stress scenario was a combination of the more severe elements of CST 2014 and CST

2015, incorporating a sharp increase in the cost of credit for households and businesses accompanied by a 0 per cent. base rate, a near doubling of the unemployment rate to a peak of 9.5 per cent. and a 31 per cent. fall in UK house prices.

Despite the severity of this scenario the results illustrated the strength and resilience of Nationwide with low point stressed ratios for CET1 and CRR leverage of 15.6 per cent. and 4.2 per cent., respectively, after the effect of management actions.

Nationwide, along with the major UK banks, is currently taking part in the 2017 CST. As part of this, the Annual Cyclical Scenario (**ACS**) features a global and domestic economic downturn, with a sharp rise in interest rates in the UK. In addition to the ACS, this is the first year that participating firms are required to complete the Biennial Exploratory Scenario, which features persistently low interest rates combined with compressed margins because of an assumed increase in competition, driven by advances in financial technology and new entrants to the market.

For details of Nationwide's capital position, risk weighted assets and recent regulatory developments, see "*Part XVI: Capital Adequacy*".

Market risk

Market risk is the risk that the net value of, or net income arising from, assets and liabilities is impacted as a result of market price or rate changes, specifically interest rates, currency rates or equity prices. Aligned to Nationwide's 'built to last' strategic cornerstone, market risks are not taken unless they are essential to core business activities, or they are designed to provide stability of earnings.

Market risk only arises in Nationwide's banking book as it does not have a trading book. Most of the exposure to market risk arises from fixed rate mortgages or savings and changes in the market value of the liquidity portfolio. There is a limited amount of currency risk on non-sterling financial assets and liabilities held.

Principal market risk reporting measures

The principal market risks that affect Nationwide are listed below together with the types of risk reporting measures used:

- interest rate risk – reported using value sensitivity and Value at Risk (**VaR**);
- basis risk – reported using earnings sensitivity;
- swap spread risk – reported using value sensitivity and VaR;
- currency risk – reported using VaR; and
- product option risk – reported using VaR.

Sensitivity analysis

Sensitivity analysis is used to assess the change in value of, for example, the net exposure to a one basis point (0.01%) parallel shift in interest rates (**PV01**). This analysis is performed daily by currency. Sensitivity analysis is also used to evaluate swap spread risk.

Earnings sensitivity

Earnings sensitivity measures the risk that income is adversely affected by changes in interest rates. The sensitivity of earnings to changes in interest rates is measured monthly using a forecasting model and potential interest rate scenarios. The absolute levels of interest rates can influence the flexibility to manage earnings. If interest rates fall further or become negative, Nationwide's margins may be reduced because it is unlikely that the benefit to borrowers can be fully offset through current account or savings product rate changes.

VaR

VaR is a technique that estimates the potential losses that could occur on risk positions because of future movements in market rates and prices, over a specified time horizon, to a given level of statistical confidence. VaR is based on historic market behaviour and uses a series of recorded market rates and prices to derive plausible future scenarios. This considers inter-relationships between different markets and rates. There are separate models for interest rates and currencies.

The VaR model used incorporates risk factors based on interest rate and currency volatilities and correlations. A 10-day horizon and a 99 per cent. confidence level is typically used in day to day VaR monitoring. VaR is used to monitor interest rate, swap spread and currency risks and is not used to model income. Exposures against limits are reviewed daily by management. Actual outcomes are monitored on an ongoing basis by management to test the validity of the assumptions and factors used in the VaR calculation.

Although VaR is a valuable guide to risk, it needs to be viewed in the context of the following limitations which may mean that exposures could be higher than modelled:

- 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;
- VaR models often under-predict the likelihood of extreme events and over-predict the benefits of offsetting positions in those extreme events;
- the VaR model uses historical data to predict future events. Extreme market movements beyond those used to calibrate the model will deliver exceptions. For example, in periods of heightened volatility the model is likely to under-predict market risks and in periods of low volatility it is likely to over-predict market risks; and
- historical data may not adequately predict circumstances arising from government interventions and stimulus packages, which increase the difficulty of evaluating risks.

To seek to mitigate these limitations, back testing of the VaR model is undertaken on a regular basis to ensure that the model is appropriate. This process compares actual performance against the estimated VaR numbers. An exception is created when a loss is greater than the daily VaR on any given day. In both the financial year ended 4 April 2017 and the financial year ended 4 April 2016, the back testing did not highlight any model deficiencies. In both years, there were four or less loss exceptions, within acceptable tolerance for regulatory purposes of four or fewer exceptions over the period.

The VaR model is subject to an annual review process to ensure it continues to be appropriate for risk reporting.

The types of risks not captured in VaR include:

- product option risk for which Pillar 2 capital is held;
- market liquidity risk – this has a limited impact because, whilst Nationwide requires an appropriate level of market liquidity to manage market risk, it does not have a high ongoing dependency on it given that it does not operate a trading book;
- fair value level 3 asset management – only a very small portfolio of these assets is held and, whilst historic data is not a reliable predictor of the future, the impact is limited (capital is held for these assets as a Prudent Valuation Adjustment); and
- interest rate movements that can impact credit/debit valuation adjustments (**CVA/DVA**). These are not captured in the VaR or sensitivity analysis but are negligible.

Stress analysis

To evaluate the potential impact of more extreme but plausible events or movements in a set of financial variables the standard VaR metric is supported with sensitivity and stress analysis.

For example, for interest rate risk exposures, the standard PV01 sensitivity analysis is supplemented by the production of stressed sensitivity measures. A more severe 200 basis point (2.0%) parallel shift in interest rates is calculated in a similar manner to PV01; this sensitivity analysis is known as PV200. PV200 numbers are generated and monitored daily.

In addition, stressed VaR is used to estimate the potential loss arising from unfavourable market movements in a stressed environment. It is calculated in the same way as standard VaR, calibrated over a two year period and on a 99% 10-day basis but uses volatilities and correlations from a period of significant financial stress.

Each quarter, the residual interest rate risk and currency positions are also subjected to a range of stressed scenarios designed to highlight potential losses in extreme market conditions. The results of these scenarios are reviewed by management to provide insight into the circumstances in which losses may occur.

A range of metrics are also regularly produced focusing on the crystallisation of product option risks under stressed events.

Interest rate risk management

The main market risk that Nationwide faces is interest rate risk. Market movements in interest rates affect the interest rate margin realised from lending and borrowing activities.

To reduce the impact of these movements, the Treasury undertakes hedging activities. For example, interest rate risks generated by lending to and receiving deposits from customers are offset against each other internally. The remaining net exposure is managed using derivatives, within parameters set by ALCO.

The income contribution from the reserves and non-interest bearing current accounts are subject to the volatility of short term interest rates. This is smoothed using structural hedging to reduce the volatility of earnings.

The tables below shows Nationwide's exposure to interest rate risk for each of the three financial years ended 4 April 2017. The risk is calculated each day and summarised over the financial year.

	As at 4 April 2017		
	Average	**High**	**Low**
		(*£ millions*)	
VaR (99 per cent./10-day)	0.5	2.4	0.1
Sensitivity analysis (PV01).........................	0.0	0.1	(0.0)
Stress testing (PV200: all currencies)[(1)]......	4.0	19.3	(9.3)

	As at 4 April 2016		
	Average	**High**	**Low**
		(*£ millions*)	
VaR (99 per cent./10-day)	0.3	0.8	0.1
Sensitivity analysis (PV01).........................	0.0	0.1	(0.1)
Stress testing (PV200: all currencies)[(1)]......	6.9	19.3	(10.8)

	As at 4 April 2015		
	Average	**High**	**Low**
		(*£ millions*)	
VaR (99 per cent./10-day)	0.4	1.0	0.1
Sensitivity analysis (PV01).........................	—	0.1	(0.1)
Stress testing (PV200: all currencies)[1]......	4.9	20.9	(10.8)

Basis risk management

Basis risk arises where variable rate assets and liabilities re-price with reference to differing short term interest rate benchmarks. The primary interest rates that Nationwide is exposed to are the BoE base rate and three month Libor. Changes in the difference between base rate and three month Libor over time will impact earnings.

Assets and liabilities are offset by a reference rate, or 'basis' type. Exposure to the net mismatch is mitigated, where necessary, by transacting basis swaps to ensure Nationwide remains within internally agreed risk limits.

Earnings sensitivity

Earnings sensitivity measures the risk that Nationwide's net interest income is adversely affected by changes in interest rates. The sensitivity of Nationwide's net interest income to changes in interest rates is measured monthly using a forecasting model and potential interest rate scenarios.

The table below shows the sensitivity of future earnings to rises and falls in interest rates over a one year period as at 4 April in each of 2017, 2016 and 2015.

	As at 4 April		
	2017	**2016**	**2015**
		(*£ millions*)	
+200 basis point shift.................................	250	230	193
+100 basis point shift.................................	117	108	88
-25 basis point shift....................................	(68)	(25)	(24)

The following should be noted in relation to the above:

- impacts are calculated for a forward period of one year;
- the interest rate sensitivities set out above are illustrative only and are based on a static balance sheet; all assets and liabilities maturing within the year are assumed to reinvest in like for like products;
- the negative shift scenarios are floored at one basis point to prevent rates from turning negative;
- the reported sensitivities will vary over time due to several factors, such as the timing of maturing assets and liabilities, market conditions, customer behaviour and strategic changes to the balance sheet mix, and should not therefore be considered predictive of future performance;
- the sensitivity analysis includes all financial assets and liabilities held; and
- the model does not take any management actions into account.

The absolute levels of interest rates can influence the flexibility to manage earnings. If interest rates fall further or become negative, margins may be constrained because it is unlikely that the benefit to borrowers can be fully offset through current account or savings product rate changes.

Swap spread risk management

A liquidity portfolio is held to manage liquidity risk. These assets are predominantly fixed rate sovereign debt securities and interest rate swaps are used to hedge the interest rate risk on these assets. However, there remains a residual risk associated with the possible movement in the spread between sovereign debt yields and swap rates. This 'swap spread risk' reflects the fact that the market value of the liquidity portfolio can change due to movements in bond and swap rates. In economic terms, this risk is only realised if a bond is sold and the swap is cancelled ahead of maturity.

This market risk is monitored using stressed VaR metrics and the risk is controlled through internal limits linked to capital requirements. Exposures are monitored daily and are reported monthly to ALCO.

Currency risk management

Currency exposure is managed through natural offset on the balance sheet or using derivatives to reduce exposures to acceptable levels. ALCO sets and monitors limits on the net currency exposure. Nationwide faces only limited currency risk, with VaR (99 per cent./10-day) averaging £0.1 million in each of the three financial years ended 4 April 2017.

Product option risk management

Product option risk arises because of customers exercising options contained within fixed rate products which can require 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 take-up risk (higher or lower completions of fixed rate mortgages). These risk exposures are quantified under a range of stress scenarios using models that predict customer behaviour in response to changes in interest rates. The potential impacts are then closely monitored. These stressed risk measures are subject to a set of limits and are reported to ALCO, along with proposed management actions where necessary to bring the exposures within limits. This approach is also used to assess internal capital requirements for product option risks.

Risks associated with using models to manage market risk

Managing market risk effectively is highly dependent on effective models. The models are designed as representations of business systems to help describe the impact of various scenarios and to optimise decisions taken as a result.

The risk associated with market risk models is controlled and managed through the Model Validation Policy. This requires all significant models be validated by an independent oversight team prior to use. The validation process identifies model strengths and weaknesses, assesses the potential impact of these and suggests appropriate mitigating actions. After implementation, model performance is assessed regularly using back testing and sensitivity analysis. All models are also subject to a more thorough periodic review, at least annually, to ensure they remain fit for purpose. The results of the model performance assessment are used to inform future model development.

Calculations to determine the capital requirements for interest rate risk are made using the same models as those used for monitoring day to day interest rate risk

Recent regulatory developments

The Basel Committee on Banking Supervision published the Standards for Interest Rate Risk in the Banking Book (**IRRBB**) in April 2016. Nationwide expects to be fully compliant with these enhanced disclosure requirements, which are expected to be applicable from 2018.

The European Commission proposed a set of reforms to capital requirements for market risk in November 2016. Included within this proposed set of reforms are elements of the Basel Disclosure Standards for IRRBB and more granular instructions for calculation of own funds requirements for market risk in the non-trading book.

Nationwide intends to assess the new guidelines over the coming months to ensure readiness in anticipation of adoption of the proposal. The EC expects the proposed regulation to be effective from 2019.

Pension risk

Pension risk is the risk that the value of Nationwide's pension schemes' assets will be insufficient to meet their estimated liabilities. Pension risk can adversely impact Nationwide's capital position and/or result in increased cash funding obligations to the pension schemes.

The most significant pension scheme is the Nationwide Pension Fund (the **Fund**), which is closed to new employees, although some employees continue to accrue benefits. In accordance with UK legislation, the assets of the Fund are held in a legally separate trust from the Group's assets and are administered by a board of trustees who have fiduciary responsibilities to the beneficiaries of the Fund. Volatility in investment returns from the assets and the value of the liabilities cause volatility in the Fund's deficit.

The key risk factors impacting the deficit are set out below. These factors can have a positive or negative impact on the deficit.

- ***Long term interest rates and credit spreads*** - Decreases in long term interest rates and/or credit spreads will increase the value placed on the Fund's liabilities. The increase in liabilities will be partially offset by an increase in the value of the Fund's bonds and credit investments.

- ***Inflation*** - The majority of the pension benefits are linked to inflation. Higher inflation will lead to higher liabilities (although, for most benefits, caps on the level of inflationary increases protect the Fund against extreme inflation). Where asset values are correlated with inflation (for example, index linked gilts and inflation swaps), the increase in the liabilities will be partially offset by asset increases.

- ***Asset performance*** - Liabilities are calculated using a discount rate set with reference to bond yields. If the assets underperform the bond yields, this will cause the net position of the Fund to deteriorate. The Fund also holds a significant proportion of return-seeking assets such as equities and credit investments. Whilst return-seeking assets are expected to outperform the liabilities in the long term, they create risk and volatility in the short to medium term. The investment in return seeking assets, such as equities, is monitored by both the Fund's trustees and Nationwide to ensure it remains appropriate given the Fund's long term objectives. Further details on the movement of assets are set out in note 33 to the 2017 Financial Statements.

- ***Longevity (life expectancy)*** - The majority of pension benefits received by members of the Fund are paid for life. Therefore, Nationwide is exposed to the risk of Fund members living longer than expected, as this would lead to pension benefits being paid for longer. Nationwide periodically updates its estimates of future longevity of members of the Fund, having regard to the most up to date mortality data and projections of mortality rates produced by the Continuous Mortality Investigation.

- ***Regulation*** - Nationwide is exposed to potential changes in the regulatory environment and pension legislation, which could increase the pension liabilities and/or impact Nationwide's capital position. In addition, a change in the methodology used to derive key actuarial assumptions (for example, the discount rate, or longevity assumptions) can result in a change in the assessment of the liabilities and therefore the deficit. However, the ultimate cost of providing benefits will depend on actual future events, rather than assumptions made.

During the financial year ended 4 April 2017, £149 million of employer deficit contributions were paid compared to £49 million in the financial year ended 4 April 2016 and £91 million in the financial year ended 4 April 2015. These deficit contributions are included in employer contributions in the table below (together with employer contributions in respect of benefit accrual during each financial year). Under Nationwide's current deficit recovery plan, further annual deficit contributions of £49 million are payable over each of the four financial years ending 4 April 2021.

The latest triennial valuation of the Fund, which has an effective date of 31 March 2016, is currently underway. Employer contributions in future years, including a new deficit recovery plan, are expected to be agreed with the Trustee during the financial year ended 4 April 2018.

The retirement benefit obligation that appears within liabilities on the balance sheet fell from £286 million as at 4 April 2015 to £213 million as at 4 April 2016 and increased to £423 million as at 4 April 2017, as shown in the table below.

	As at 4 April		
	2017	**2016**	**2015**
		(*£ millions*)	
As at 5 April	(213)	(286)	235)
Pension charge	(64)	(69)	(57)
Net interest cost	(5)	(7)	(6)
Actuarial remeasurement	(347)	42	(136)
Employer contributions (including deficit contributions)	206	107	148
As at 4 April	**(423)**	**(213)**	**(286)**

The actuarial remeasurement quantifies the impact on the deficit from the updating of economic and demographic assumptions. Positive movements in the Fund's assets in excess of the discount rate in the financial year ended 4 April 2017, of £951 million, were driven by strong equity price returns and increased bond valuations. However, the change in actuarial assumptions over the year (driven by market conditions, partially offset by updating the longevity assumptions) resulted in liabilities increasing by £1,298 million, which was more than the positive movements in the Fund's assets and resulted in an increase in the Fund's deficit in that year.

During the financial year ended 4 April 2017, £712 million of equities were sold and reinvested into credit and liability matching assets to reduce risk and increase investment diversification of the Fund's assets. The Fund entered into £246 million of long-dated inflation swaps to reduce its exposure to inflation risk. These activities partially offset the impact of changes in market conditions.

In the financial year ended 4 April 2016, positive movements in the Fund's assets and the actuarial assumptions over the year (a higher discount rate, lower inflation expectations and slightly reduced life expectancy assumptions) resulted in a small decrease in the Fund's deficit in that year.

Regular production of analysis, insight and monitoring supports pension risk management and helps Nationwide to anticipate any management actions that may be required. This includes risk appetite articulation and regular reporting to governance committees, including the Executive Committee and Board Risk Committee. In addition, pension risk is embedded into Nationwide's Enterprise Risk Management Framework and stress testing processes.

Over the long term, the Trustee intends to significantly reduce the Fund's risk, and Nationwide actively engages with the Trustee to ensure broad alignment on investment objectives and implementation. This is supported by permanent representation by Nationwide at the Trustee's Investment and Funding Committee and investment working groups, sharing management information between Nationwide and the Trustee to consider specific risk management initiatives.

Potential initiatives to reduce pension risk include, but are not limited to, adjusting the asset allocation (for example further reducing the allocation to equities and increasing the allocation to bonds), adjusting contribution levels and adjusting the level of benefits that members of the Fund accrue in the future.

Earnings risk

Nationwide seeks to generate sustainable profits by focusing on recurrent sources of income that generate value commensurate with the risks taken. Earnings risk is the risk that a source of income or value is unable to continue to add the expected value, due to changes in market, regulatory or other environmental factors. The Society manages and monitors this risk as part of ongoing business performance reporting to senior management and the Board.

Ensuring that Nationwide continues to remain profitable is key to the longevity and self-sufficiency of its business model. The aim of earnings risk strategy is to maintain sufficient earnings, and a minimum level of profit, capable of withstanding plausible trading risks and delivering member value. The earnings risk strategy identifies and quantifies plausible trading risks within the context of Nationwide's financial forecast, taking into account the potential impact of economic and market uncertainties. These risks are assessed against management and Board risk appetite, aligned to Nationwide's Financial Performance Framework which ensures achievement of the right balance between distributing value to members, investing in the business and maintaining financial strength.

Earnings risk is managed and mitigated through a range of measures such as:

- financial forecasting: as part of the financial planning process Nationwide forecasts performance over a five year period with an updated earnings forecast reviewed by management monthly, taking into consideration the key risks and sensitivities;
- monitoring of financial performance: the various components of earnings are monitored monthly against internal forecasts, limits and triggers across a variety of committees and forums, which consider potential earnings risks and possible mitigating actions; and
- stress testing and sensitivity analysis: earnings are regularly stress tested as part of internal management reporting such as the financial plan downside and upside scenarios, ICAAP and reverse stress test. In addition, earnings are tested externally under the PRA's CST scenarios. As a result, sensitivity analysis of expected earnings is conducted against a range of possible stress testing and sensitivity scenarios.

Given the ongoing European and global economic environment there is an increased risk of uncertainty in the economic markets in which Nationwide operates. In addition, there is a risk of increased competition in the mortgage market, driving mortgage margins lower. This economic and competitive market context is expected to maintain pressure on Nationwide's net interest margin. Furthermore, should economic conditions deteriorate there is a risk of increased credit impairments adversely impacting earnings. Nationwide intends to continue to monitor the external economic environment to identify and mitigate any threats to achieving forecast earnings.

OPERATIONAL RISK

Nationwide defines operational risk as the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. Nationwide manages operational risk across a number of sub-categories, the most significant of which cover cyber, IT resilience and security, business continuity, payments and fraud.

Nationwide's operational risk profile is informed by risk assessments from across the business, and by review and challenge by both management and the Risk Oversight function. Risk Oversight supports the business in managing the risks it faces in its normal day-to-day activities and when implementing change programmes. Nationwide continues to strengthen and embed the operational risk framework, expanding the use of techniques such as scenario analysis and 'war-gaming' to support the understanding of current and future risks and to optimise risk-based decision making across the business.

Risk Oversight also monitors and reports on the operational risk events that have occurred, to better understand those exposures that require management attention. For the purposes of this report, operational risk events include only those where a financial loss arises from an operational risk incident. Nationwide records operational risk events against causal categories, as well as reporting them against the operational risk categories defined by the Basel Committee on Banking Supervision in Basel II. This allows comparison of operational risk experience with its peer group.

A significant majority of Nationwide's operational risk events have been recorded against three of the Basel categories:

- Clients, Products & Business Practices;
- External Fraud; and
- Execution, Delivery and Process Management.

These categories accounted for 99.1 per cent. by value, and 95.3 per cent. by number, of Nationwide's operational risk events in the financial year ended 4 April 2017, compared to 98.4 per cent. by value and 93.1 per cent. by number in the financial year ended 4 April 2016 and 96.8 per cent. by value and 96.6 per cent. by number in the financial year ended 4 April 2015.

Whilst the highest losses are against the clients, products and business practices category, Nationwide typically experiences a relatively low volume of these events. This contrasts with the external fraud event category, where a higher volume of events is observed, though with lower individual losses. In line with continuing trends in the financial services sector, Nationwide has seen a continued increase in the number of low value fraud events, primarily through 'card not present' fraud.

The table below shows Nationwide's operational risk events by Basel category[1] in each of the financial years ended 4 April 2017 and 4 April 2016, categorised by value of events and by number of events, respectively.

	Financial year ended 4 April			
	2017		**2016**[2]	
	By value	**By number**	**By value**	**By number**
	(*per cent.*)			
Clients, products and business practices[1]	79.5	11.8	77.7	14.5
External fraud	9.8	77.4	11.6	71.7
Execution, delivery and process management	9.8	6.1	9.1	6.9
Internal fraud	0.0	0.3	0.5	1.0
Business disruption and system failure	0.3	0.5	0.1	0.5
Damage to physical assets	0.4	3.4	0.6	3.8
Employment practices and workplace safety	0.2	0.5	0.4	1.6
Total	**100.0**	**100.0**	**100.0**	**100.0**

Notes:

(1) Risk events with losses over £5,000 and multiple losses relating to the same event are only counted once.

(2) Comparatives have been restated to include additional historic data and to align to the current classification methodology. For this reason, no comparative 2015 data is available.

(3) Includes the costs of customer redress in relation to ongoing payment protection insurance claims.

Nationwide's overall portfolio of operational risks remained relatively stable over the two financial years ended 4 April 2017. The continued increase in customers' expectations towards the management of key inherent risks such as cyber-security and IT resilience, coupled with the high pace of change and focus on delivering a refreshed strategy, have been matched by increased control and monitoring. Nationwide's focus is on being safe, secure and dependable in order to ensure service availability and customer data are protected.

The main drivers of operational risk are as follows:

Cyber security and data protection

The maturity and sophistication of organised cyber-crime continue to increase and have been highlighted by a number of recent attacks in the financial and non-financial sectors, including payment services. Such attacks have also increased the public awareness of cyber-threats. As a result of the continued increasing threat from cyber-crime, security controls have needed to keep pace to prevent, detect and respond to any threats or attacks. The constant threat posed by a cyber attack directly impacts the existing risks associated with external fraud, data loss, data integrity and availability. Nationwide recognises the impact a successful cyber attack could have on the business and its customers.

Significant effort continues to be focused on discharging Nationwide's cyber risk management responsibilities effectively, with ongoing investment in appropriate technology and processes. This aims to ensure that operations and, more importantly, customers are safeguarded. The cyber security control framework includes systems, processes, policies and controls to ensure cyber risk is managed effectively and is designed to ensure that effective approaches are in place to respond to any attacks, whether aimed directly at Nationwide or at other parties, where there may be an indirect impact on its customers. Cyber security remains a high priority and Nationwide intends to continue to focus on improving the awareness of its customers and employees, as well as continuing to build its understanding of the developing threats, its defences and its resilience to cyber attacks.

IT and operational resilience

Nationwide's implementation of new systems, infrastructures and processes, alongside the maintenance of legacy systems, introduces a level of operational complexity. In an increasingly digital world, customer expectations are rising, with a significantly lower tolerance of service disruption. Ensuring a highly reliable and widely available service requires resilient IT, business systems and processes. Meanwhile the exponential rise in data used in digital services increases the complexity and cost of managing data securely and effectively. In response, Nationwide operates a dedicated Operational Resilience Function to ensure it meets customer expectations for service levels associated with both internal and externally sourced IT and operations.

People risk

Nationwide relies on talented and dedicated people to deliver its strategy and provide first class service, and to operate a strong risk and control framework. Nationwide continues to monitor and closely manage the impact on its people as it structures itself to deliver the refreshed strategy and the products, services and experience that customers want, to ensure that the required levels of skill, knowledge and engagement are maintained.

Nationwide also relies on strategic third parties and continues to invest in this area to maintain and develop appropriate controls to ensure that residual risk exposures are managed within appetite.

Pace of change in a digital environment

Whilst the member-focused nature of Nationwide's business model puts it in a good position to respond to the varied and evolving needs of customers, Nationwide is committed to making it easier to transact through a range of channels. The scale and pace of change can create delivery challenges. Such challenges have the potential to disrupt Nationwide's operating environment and negatively impact the service experienced by customers. These operational risks are managed through a strong focus on service management, transformation governance and programme management disciplines.

Nationwide invests significantly in its digital channels, regularly updating the mobile and internet banking services and enabling new payment technologies. The experience for customers and staff in branches continues to improve with the roll out of the next generation of the Mobile Banking application and the strategic commitment to transform branches. Nationwide had one significant operational incident during the financial year ended 4 April 2017, which resulted in restricted access to the previous version of the Mobile banking application over three days. Actions have been taken to prevent reoccurrence.

CONDUCT AND COMPLIANCE RISK

Conduct and compliance risk is the risk that Nationwide exercises inappropriate judgement or makes errors in the execution of its business activities, leading to non-compliance with regulation or legislation, market integrity being undermined, or an unfair outcome being created for members and customers. A programme of activity is underway to continually assess and mature the approach to the management of conduct and compliance risk across Nationwide.

The regulatory environment remains challenging, with a variety of complex regulatory changes and new regimes being embedded, as regulators continue to drive an agenda committed to rebuilding trust and confidence in the UK financial services markets. Nationwide is supportive of these developments.

The embedding of conduct risk management across Nationwide continues to be an area of focus. The activity is underpinned by a set of internal principles, known as the Conduct Outcomes Statements, designed to support fair customer outcomes and protect markets. This supports the strengthening of a 'risk aware culture', which enables effective risk management and meets the expectations of customers and regulators.

Great importance is attached to the culture within Nationwide, ensuring that values and behaviours clearly align to its strategy. At the same time, continual assessment of new and existing risks in the conduct and compliance environment ensures that risk exposure is appropriately managed. These risks include but are not limited to:

- uses of new technology;
- cyber crime;
- product and service changes; and
- regulatory change.

There is currently a significant volume of regulatory change impacting the industry. Some of the key items relevant to Nationwide are listed below:

- In March 2016, the PRA and the Financial Conduct Authority (the **FCA**) introduced the Senior Managers Regime, Certification Regime and Conduct Rules, to strengthen individual accountability and hold individuals accountable for their actions in relation to regulated activities. On 7 March 2017, the Conduct Rules came into force. These rules capture all employees except for ancillary roles. Nationwide has successfully implemented these changes.

- The EU's Fourth Anti-Money Laundering Directive, which came into force in June 2017, aims to enhance processes to counter money laundering and terrorist financing. Nationwide is committed to operating a business that prevents, deters and detects money laundering and terrorist financing, and will introduce any changes required in line with the new directive and industry guidance.

- MIFID II (the Markets in Financial Instruments Directive and Regulation) comes into force on 3 January 2018. It sets out the rules for the provision of investment services and activities in complex financial instruments, increased customer and client protection standards, rules for trading venues and new standards for transaction reporting. Two projects are currently underway to make the changes necessary to meet the requirements. The approaches have been independently validated, and Nationwide expects to be fully compliant by the implementation deadline.

- The Payment Services Directive 2 (**PSD2**) will be transposed into UK Law in January 2018 and will bring new payment service providers into the scope of regulation, open up access to payment accounts through authorised third parties, and require enhanced security and authentication measures. It will require substantial changes in processes and IT infrastructure. The Society is currently making the necessary changes to meet the requirements.

- The General Data Protection Regulation (**GDPR**) comes into force in May 2018 and applies to personal data. Its definition is more detailed than the Data Protection Act (**DPA**) and makes it clear that information such as an online identifier (for example an IP address, can be personal data). It applies to both automated personal data and to manual filing systems where personal data is accessible according to specific criteria. This is wider than the DPA's definition and could include chronologically ordered sets of manual records containing personal data. A significant programme of work is in place to make the changes necessary to meet the requirements.

- On 2 March 2017, the FCA finalised plans to place a deadline of 29 August 2019 on Payment Protection Insurance (**PPI**) complaints. The FCA also detailed the actions it expects firms to take in response to the Supreme Court ruling on '*Plevin v Paragon Personal Finance Ltd*' which may impact some PPI cases. Nationwide has a redress programme of activity in place that will manage and oversee the impacts of the Supreme Court ruling. Further information on provisions for PPI and other customer redress is provided in note 30 to the 2017 Financial Statements.

In addition, the final report in relation to the FCA's market study on competition in the mortgage sector, which was launched in December 2016, is expected in 2018. Nationwide is monitoring ongoing communications on this subject and expects to implement enhancements to the current proposition where appropriate.

Nationwide believes that it is well placed to continue to respond to these complex regulatory changes and will continue to provide a secure and dependable variety of products and services which are designed to meet the needs of members and customers.

STRATEGIC RISK

Nationwide defines strategic risk as 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. It encompasses risks that could become a material issue for Nationwide's business model or arise from strategic initiatives. Whilst all business areas are responsible for managing their own risks, management of strategic risk is primarily the responsibility of the Executive Committee.

Nationwide assesses the external environment to consider risks that may materially affect the delivery of its strategy and aims to address these risks in developing its plans. Key activities to support the management of strategic risk include stress testing processes and the regular review of business performance and risk reporting data by the Board and Executive Committee. Some of the top and emerging risks have the potential to affect more than one risk category, and could have a significant impact on the business model if these were to crystallise within the same timeframe, and are therefore monitored under strategic risk.

In managing strategic risk, strategic investments are evaluated with regard to the potential benefit for both current and future members. Nationwide's activities are centred around mainstream UK retail personal financial services, with participation in other non-member business activities only where these activities fit with core capabilities, diversify risks, and earn a premium return for its members.

The strategy is designed to respond to strategic risks to the business model. The key risks that could require the strategy to be adapted are changes in customer behaviour, the competitive environment in which Nationwide operates and the continuing low interest rate environment. These are all noted in the PRA's latest Biennial Exploratory Scenario, which forms part of the 2017 CST activity, and will provide Nationwide with the opportunity to stress test the impact to margins.

Nationwide expects customers to make greater use of digital channels and that their expectations for service availability and quality will continue to increase. However, there is a risk that new technology is adopted more quickly than anticipated, or that new propositions offered by competitors alter customer expectations. Both would require a change to current plans. Nationwide also expects that the core markets in which it operates will remain highly competitive due to existing and new competitors.

The implementation of Open Banking could result in the emergence of new competitors, potentially with substantially different business models that materially alter this environment and this could affect Nationwide's ability to attract and retain customers, adversely affecting liquidity and increasing its funding costs over time.

Nationwide is investing in developing Open Banking solutions to support members' needs and to mitigate this risk.

The impact of the continued low interest rate environment, particularly on margins, is monitored closely. Although Nationwide does not currently expect it, a move to zero or negative rates could result in changing customer attitudes to savings, potentially impacting Nationwide's business model. This risk is managed through appropriate pricing of product propositions, as well as prioritising investment activities, to ensure that Nationwide delivers the service that members and customers expect and maintains a sustainable business model.

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. The Basel III reform package (a regulatory capital and liquidity framework approved by the Basel Committee in 2011) has been implemented in the European Economic Area (the **EEA**) through the Capital Requirements Regulation (the **CRR**) and the associated directive, the Capital Requirements Directive (**CRD**) (together, **CRD IV**), which was published in the Official Journal of the European Union on 27 June 2013. The CRR establishes a single set of harmonised prudential rules for financial institutions and certain minimum liquidity standards which apply directly to all credit institutions in the EEA, with the CRD containing less prescriptive provisions which (unlike the CRR, which applies across the EU without the need for any implementing legislation at member-state level) are required to be transposed into national law. CRD IV reinforces capital standards and establish a leverage ratio "backstop." Full implementation began from 1 January 2014, with particular elements being phased in over a period of time (the requirements will largely be effective by 2019 and some minor transitional provisions provide for phase-in until 2024). As CRD IV allows certain national discretion, the final rules and the timetable for their implementation in each jurisdiction may be subject to some level of national variation. The Basel Committee has also published certain proposed revision to the securitisation framework, including changes to the approaches to calculating risk weights and a new risk weight floor of 15 per cent.

The principal intention underlying CRD IV is the harmonisation of banking regulation and supervision throughout the EU and the EEA. CRD IV prescribes minimum standards in key areas and requires EEA member states to give "mutual recognition" to each other's standards of regulation. CRD IV also addresses the "passport" concept, which amounts to freedom for a credit institution authorised in its "home" state to establish branches in, and to provide cross-border services into, other EEA member states.

Although credit institutions are primarily regulated in their home state by a local regulator, the CRD IV prescribes minimum criteria for regulation of the authorisation of credit institutions and the prudential supervision applicable to them. Nationwide's local regulators are the PRA and the FCA. For further information about regulation in the UK see paragraph 2 "*UK Regulation*" below.

CRD IV substantially reflects the Basel III capital and liquidity standards. CRD IV also makes provision for (among other things) requirements to reduce reliance by credit institutions on external credit ratings, by requiring that all banks' investment decisions are based not only on ratings but also on their own internal credit opinion, and that banks with a material number of exposures in a given portfolio develop internal ratings for that portfolio instead of relying on external ratings for the calculation of their capital requirements. Certain details remain to be clarified in further binding technical standards to be issued by the European Banking Authority.

The CRR gives express recognition for CET1 capital instruments for mutuals and co-operatives and permits the use of a cap or restriction to safeguard the interests of members and reserves.

On 23 November 2016 the European Commission published an extensive package of reforms to prudential standards proposing amendments to the framework applicable to financial groups. The reforms predominantly amend CRD IV, CRR and BRRD (the **Banking Reform Package**). The Banking Reform Package is part of the on-going upgrade of CRD IV from Basel III to so-called 'Basel IV' and seeks to bring the EU's existing MREL under the BRRD in line with the Financial Stability Board's Total Loss-Absorbing Capacity standard for global systemically important institutions and includes harmonising the creditor hierarchy of EU banks, which would create an MREL-eligible non-capital debt instrument, the proposed features of which are also set out in the proposal. This would bring increased flexibility for future MREL issuance, but is dependent on legislation differentiating the new liability being written into UK statute. The proposal is expected to pass the legislative process in the course of 2017, with implementation expected in 2018.

2. UK REGULATION

The UK Financial Services Act 2012 amended certain existing legislation including the Financial Services and Markets Act 2000, the Building Societies Act 1986 and the Banking Act to make provision about the exercise of certain statutory functions relating to building societies.

Another area of change which impacts on the UK regulatory landscape relates to banking reform. The Financial Services (Banking Reform) Act 2013 (the **Banking Reform Act**) introduced amendments to FSMA which provide for, inter alia, the ring-fencing of vital banking services from international and investment banking services, measures on loss absorbency and depositor preference and proposals for enhancing competition in the banking sector. Certain aspects of such measures entered into force on 1 January 2015 although the full ring-fencing regime will not apply until 2019. Further, the Government has carved building societies out of the proposed ring-fencing legislation and, instead, reserves the power to amend the UK Building Societies Act to bring building societies legislation into line with the proposed ring-fencing requirements. The PRA published its consultation paper CP 38/15 on Operational Continuity in October 2015, and it published an addendum on 11 December 2015. The rules will apply from 1 January 2019. The proposals support the resolvability and resilience of building societies and banks in seeking to ensure critical shared services are organized to facilitate continuity in the event of failure.

On 1 January 2015, the Banks and Building Societies (Depositor Preference and Priorities) Order 2014 came into force, changing the different creditor ranking that previously would have applied in the event of a liquidation between a bank and a building society. The effect of these changes is that both banks and building societies are now subject to the preference in ranking accorded to retail deposits and a super-preference for deposits covered by the FSCS. When combined with other specific changes affecting building societies, the relative differences in ranking as between banks and building societies no longer apply and the effective creditor hierarchy for banks and building societies is now the same.

The Banking Reform Act includes provisions to address among other things, proposals for: (i) a new senior persons regime governing the conduct of bank staff; (ii) the introduction of a criminal offence for reckless misconduct by senior bank staff; and (iii) steps to improve competition in the banking sector. The Senior Managers Regime and Certification Regime entered into force on 7 March 2016 in respect of PRA authorised persons and replaced the Approved Persons Regime established under FSMA (as amended by the Financial Services Act 2012). The PRA and FCA continue to publish guidance on the 'senior managers' regime, most recently the Policy Statement 12/17 (**PS12/17**) on strengthening individual accountability in banking and insurance: amendment and optimisation. The Banking Reform Act and related secondary legislation continue to have a substantial impact on banks and building societies in the UK generally, including the Society.

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. Nationwide is regulated by the FCA in relation to conduct of business matters and by the PRA in relation to prudential requirements. With the introduction of the FSMA, 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, nature 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 below.

On 6 July 2012, HM Treasury published a discussion document entitled: "The future of building societies" which set out the Government's aim to maintain the distinctiveness of the building society sector while creating a level playing field and removing unnecessary barriers to growth. The Government stated its intention to amend the Act to widen the opportunities for building societies without compromising their mutuality. As a result, modernising changes to the Act were made under the Banking Reform Act to bring it more in line with company law, assist building societies in raising funding and make minor technical changes in order to allow the building society sector to compete on a more level playing field with banks. The changes, in particular:

- facilitate electronic communications with members;

- remove the restrictions on building societies relating to floating charges;
- make it easier for building societies to accept small business deposits by making adjustments to the funding limit calculation;
- make certain changes concerning the distribution of shares on the transfer of a building society's business on a demutualisation; and
- permit holders of deferred shares of less than two years' standing to be eligible to receive shares or cash when a society demutualises (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.

All of these changes to the Act are in force.

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 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 current account, retail savings 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 CMA. The general restriction which used to apply to building societies from creating floating charges was removed by the Banking Reform Act with effect from 26 March 2015.

Building societies have a statutory duty to keep accounting records as well as 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". **Deferred shares** includes Nationwide's CCDS, Reset Perpetual Contingent Convertible Additional Tier 1 Capital Securities and Permanent Interest Bearing Shares.

There are restrictions on building societies raising funds from individuals other than in the form of deposits in share accounts or by the issue of deferred shares (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, individuals who have received a loan from the building society (or in certain cases, if the rules of the society allow, from another person who holds the benefit of the loan for the building society) which is fully or, if the rules of the society allow, substantially secured on land. Building societies may also make loans that do not confer member status, which generally consist of unsecured loans.

Limitations on funding and lending

The 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 in each case is up to 10 per cent. of what would have been the building society's funding but for the exclusion. Deposits with a building society or any of its subsidiaries by small businesses are also disregarded from the calculation up to a maximum of 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).

Building Societies (Financial Assistance) Order 2010

On 7 April 2010, the Building Societies (Financial Assistance) Order 2010 (the **Financial Assistance Order**) came into force in exercise of certain powers under the Banking Act for the purpose of modifying the application of the Act in specified circumstances to facilitate the provision of relevant financial assistance (including the giving of guarantees or indemnities or any other kind of financial assistance (actual or contingent)) by certain 'qualifying institutions'. Qualifying institutions for this purpose include HM Treasury, the BoE, another central bank of a Member State of the EEA, the European Central Bank, or any person acting for or on behalf of any of such institution or providing financial assistance to a building society on the basis of financial assistance received from such an institution. Most significantly, the Financial Assistance Order permits any qualifying institution to provide such assistance without it counting for the purpose of the 50 per cent. limit on the building society's non-member funding and the Financial Assistance Order also modifies the application of the purpose test and the lending limit.

Nature of capital

UK retail member deposits are classified as shares in a building society's balance 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 or her 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 - Nationwide has made an annual profit for over 95 years), any deferred shares that it has issued and tier 2 subordinated debt. Prior to the development of CCDS, the deferred shares issued by the Society were mainly in the form of PIBS, which historically counted towards a society's 'core tier 1 capital' (the predecessor to common equity tier 1 capital). Changes to the capital adequacy framework which were implemented in the UK at the end of 2010, toughened the requirements for tier 1 capital. PIBS, which were already in existence, retained their capital status but the extent to which such deferred shares count towards regulatory capital is being phased out over a long transitional period. CCDS meet the 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.

Nationwide has also issued Reset Perpetual Contingent Convertible Additional Tier 1 Capital Securities which qualify as Additional Tier 1 Capital under the CRR.

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 UK regulators

The PRA is currently the prudential regulator for building societies, banks, insurance companies and other deposit takers. The general objective of the PRA is promoting the safety and soundness of PRA-authorised persons.

The PRA supervises and regulates financial institutions, including building societies, on an ongoing basis by continually assessing their risk profile and capacity to manage and control risks. If the PRA finds that a financial institution has failed to comply with the requirements under the Financial Services and Markets Act 2000, the PRA has a variety of enforcement powers including:

- issuing a private warning; or
- taking disciplinary measures, such as issuing a public statement of misconduct or imposing a financial penalty.

The FCA is currently the conduct regulator for firms that are prudentially regulated by the PRA (dual-regulated firms). The FCA regulates both prudential and conduct matters for all other firms. The FCA's strategic objective is ensuring the relevant markets function well. The FCA's operational objectives are:

- the consumer protection objective;
- the integrity objective; and
- the competition objective.

The FCA also has a variety of enforcement powers under the Financial Services and Markets Act 2000, and from 1 April 2014, is responsible for supervision of consumer credit regulation and superintendence and enforcement of the Consumer Credit Act 1974, as amended.

As set out below, the CMA also enjoys certain enforcement powers under the UK financial services regime.

2.4 Authorisation under the FSMA

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), consumer credit activities (such as broking, lending, administration and collection), effecting and carrying out contracts of insurance as well as insurance mediation, and investment activities (such as dealing in investments as principal or as agent, arranging deals in investments, and managing investments). The Society is authorised for, among other things, deposit-taking, mortgage and certain investment activities. It is also authorised for various consumer credit activities. The FSMA also prohibits financial promotions in the UK unless the promotion is issued or approved by an authorised person or 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 the FCA Handbook and the PRA Rulebook together with guidance in various policy statements and supervisory statements.

2.5 Lending

Consumer credit

The regulatory framework in this area consists of the FSMA and secondary legislation and the CCA and secondary legislation, together with the FCA Handbook including the Consumer Credit sourcebook. A "regulated credit agreement" is defined as follows:

- For agreements entered into on or after 1 April 2014 article 60B of the Financial Services and Markets Act 2000 (Regulated Activities) Order 2001 (**RAO**) provides that a regulated credit agreement is an agreement among: (i) an individual, (ii) a partnership consisting of two or three persons not all of whom are bodies corporate, or (iii) an unincorporated body of persons which does not consist entirely of bodies corporate and is not a partnership between ("A") and any other person ("B") under which B provides A with credit of any amount, and which is not an exempt agreement within the RAO.

- For agreements entered into before 1 April 2014, a credit agreement which was a regulated credit agreement pursuant to section 8 of the CCA at the time the agreement was entered into (or became such an agreement after being varied or supplemented by another agreement before April 1, 2014), excluding those agreements which would now be regulated mortgage contracts or regulated home purchase plans under the RAO.

If requirements under the CCA as to entering into, documenting and servicing a regulated credit agreement are not or have not been met, then the agreement is unenforceable against the borrower without a 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 CCA, in certain circumstances a lender is liable to a customer in relation to misrepresentation and breach of contract by a supplier in a transaction financed by a credit agreement regulated by the CCA 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.

If prohibitions under FSMA as to authorisation or financial promotions are contravened (by credit brokers as well as lenders like us), then the affected regulated credit agreement is unenforceable against the borrower without a validation order from the FCA.

Mortgage lending

FSMA, together with the RAO 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. From 21 March 2016, the definition of regulated mortgage contract has changed in line with the United Kingdom's implementation of the Mortgage Directive. Importantly, a mortgage no longer needs to be a first charge mortgage to fall within the definition of a regulated mortgage contract. This and other changes to mortgage regulation as a result of the implementation of the Mortgage Directive are described in the "Mortgage Directive" section below.

If prohibitions under the FSMA as to authorisation or financial promotions are contravened (by credit brokers as well as lenders), 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 may instead be wholly or partly regulated by the CCA or treated as such. Any credit agreement intended to be regulated by the CCA or treated as such or unregulated may instead be a regulated mortgage contract. This is because of technical rules on determining whether the credit agreement or any part of it falls within the definition of a regulated mortgage contract under the RAO or within the definition of a regulated agreement under the CCA (described below) and technical rules on changes to credit agreements.

2.6 Mortgage Directive

On 31 March 2011, the European Commission published a proposal for a directive on credit agreements relating to residential immovable property for consumers. The Council of the European Union adopted the Mortgage Directive (Directive 2014/17/EU) on 28 January 2014 and it was published in the Official Journal of the European Union on 28 February 2014. It entered into force twenty days after such publication and was implemented by the United Kingdom with effect from 21 March 2016.

The Mortgage Directive applies to: (a) credit agreements secured by a mortgage or comparable security commonly used in a member state of the EU (a Member State) on residential immovable property, or secured by a right relating to residential immovable property and (b) credit agreements the purpose of which is to provide finance to purchase or retain rights in land or in an existing or proposed residential building, and also extends the Consumer Credit Directive (2008/48/EC) to unsecured credit agreements the purpose of which is to renovate residential immovable property involving a maximum total amount of credit of EUR 75,000. The Mortgage Directive does not apply to certain equity release credit agreements to be repaid from the sale proceeds of an immovable property, or to certain credit granted by an employer to its employees but does apply to buy to let mortgages.

The Mortgage Directive requires (among other things): standard information in advertising; standard pre-contractual information; adequate explanations to the borrower on the proposed credit agreement and any ancillary service; calculation of the annual percentage rate of charge in accordance with a prescribed formula; assessment of creditworthiness of the borrower and a right of the borrower to make early repayment of the credit agreement. The Mortgage Directive also imposes prudential and supervisory requirements for credit intermediaries and non-bank lenders.

For the most part, the UK Government has sought to put in place what it has described as the minimum requirements to meet its legal obligations under the Mortgage Directive in respect of buy-to-let mortgages. The legislation provides that firms do not need to apply the UK Government's appropriate framework for buy-to-let mortgages where a borrower is acting wholly or predominantly for the purposes of a business. HM Treasury has stated that they would expect consumer buy-to-let activity to represent a small proportion of total buy-to-let transactions. Generally speaking, the Mortgage Directive does not apply to credit agreements existing before 21 March 2016. However, the UK’s implementation of the Mortgage Directive also operates to retrospectively regulate certain credit agreements secured on land that were in existence at 21 March 2016, including existing second charge mortgages (consumer credit back book mortgage contracts). Certain provisions of MCOB will become applicable to these consumer credit back book mortgage contracts. These include the rules relating to post-sale disclosure (MCOB 7), charges (MCOB 12) and arrears, payment shortfalls and repossessions (MCOB 13). General conduct of business standards will also apply (MCOB 2). This process is subject to detailed transitional provisions that are intended to retain certain customer protections in CONC and the CCA that are not contained within MCOB.

Any further changes in the legislative or regulatory framework for mortgage regulation, including as a result of implementation of the Mortgage Directive into UK law, or any future review carried out by the FCA, or any changes to the FCA Handbook Rules, may adversely affect the Society’s businesses and operations.

2.7 Insurance

The Society is also authorised for carrying out insurance mediation. The Insurance: Conduct of Business sourcebook, which is part of the FCA Handbook, sets out rules in respect of non-investment insurance.

2.8 Financial Services Compensation Scheme

The FSMA 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 retail 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, 100 per cent. where claims arise (a) in respect of a liability subject to compulsory insurance; (b) in respect of a liability subject to professional indemnity insurance; and (c) from the death or in capacity of the policy holder due to injury, sickness or infirmity; 90% of the claim where claims arise under other types of policy with no upper limit (for claims against firms declared in default on or after 3 July 2015).

The FSCS only pays compensation for financial loss. Compensation limits are per person, per firm and per type of claim. These limits reflect Directive 2009/14/EC, amending Directive 94/19/EC on deposit guarantee schemes (the **DGSD**) requires Member States to set the minimum level of compensation for deposits, for firms declared in default on or after 1 January 2011, at €100,000. A review of the DGSD has been completed and the recast DGSD 2014/49/EC, strengthening the protection of citizens' deposits in case of bank failures, was published in the Official Journal on 12 June 2014. Implementation by EU member states was required by July 2015.

2.9 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 for complaints received on or after 1 January 2012 is £150,000 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.

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

In the UK, the Unfair Terms in Consumer Contracts Regulations 1999 as amended (the **1999 Regulations**), together with (in so far as applicable) the Unfair Terms in Consumer Contracts Regulations 1994 (together with the 1999 Regulations, the **UTCCR**), apply to agreements made on or after 1 July 1995 and before 1 October 2015. The UTCCR provides that a consumer may challenge a standard term in an agreement on the basis that it is "unfair" within the UTCCR and therefore not binding on the consumer (although the rest of the agreement will remain enforceable if it is capable of continuing in existence without the unfair term), and the lead enforcement body, and any "qualifying body" within the UTCCR (such as the FCA), may seek to enjoin a business from relying on unfair terms.

The UTCCR will not generally affect terms which define the main subject matter of the contract, such as the borrower's obligation to repay the principal, or price terms, provided that these terms are written in plain and intelligible language and are drawn adequately to the consumer's attention. The UTCCR may affect terms that are not considered to be terms which define the main subject matter of the contract or price terms, such as the lender's power to vary the interest rate and certain terms imposing early repayment charges and mortgage exit administration fees. For example, if a term permitting the lender to vary the interest rate (as the originator is permitted to do) is found to be unfair, the borrower will not be liable to pay interest at the increased rate or, to the extent that the borrower has paid it, will be able, as against the lender, or any assignee, to claim repayment of the extra interest amounts paid or to set off the amount of the claim against the amount owing by the borrower under the loan or any other loan agreement that the borrower has taken with the lender (or exercise analogous rights in Scotland).

Responsibility for enforcing the UTCCR and the Consumer Rights Act is divided between the CMA and certain other regulatory bodies, with the CMA being the lead regulator. Prior to 1 April 2014, the lead regulator for enforcement of the UTCCR was the Office of Fair Trading. The FCA has powers to enforce the UTCCR and the Consumer Rights Act in relation to agreements concerning financial services and products, including mortgages and other consumer credit agreements. While the CMA and FCA have powers to enforce the UTCCR, it would be for a court to determine their proper interpretation. The extremely broad and general wording of the UTCCR makes any assessment of the fairness of terms largely subjective and makes it difficult to predict whether or not a term would be held by a court to be unfair. It is therefore possible that any loans covered by the UTCCR may contain unfair terms which may result in the possible unenforceability of the terms of the underlying loans.

The Consumer Rights Act, which came into force from an unfair contract terms perspective on 1 October 2015 (the **CRA Commencement Date**), provides that, among other things, a term which specifies the main subject matter of the contract, or a price term, is exempt from being reviewed as to its fairness if the term is transparent and prominent and that, in proceedings brought by individual consumers, the court is required to consider the fairness of a term, even if the consumer has not raised the issue of unfairness, where the court has available to it the legal and factual elements necessary for that task.

The CRA reforms and consolidates consumer law in the UK. The CRA involves the creation of a single regime for unfair contract terms out of the Unfair Contract Terms Act 1977 (the **UCTA**) (which essentially deals with attempts to limit liability for breach of contract) and the UTCCR. On the CRA Commencement Date, certain sections of the CRA revoked the UTCCR, and introduced a new regime for dealing with unfair contractual terms with respect to contracts entered into on or after the CRA Commencement Date. The UTCCR will continue to apply to contracts entered into prior to the CRA Commencement Date as described above.

Under Part 2 of the CRA an unfair term of a consumer contract (a contract between a trader and a consumer) is not binding on a consumer (a term which has been revised to mean an individual acting for purposes that are wholly or mainly outside that individual's trade, business, craft or profession). In an additional change from the old regime, from the CRA Commencement Date, an unfair consumer notice will also not be binding on a consumer, although a consumer may rely on the term or notice if the consumer chooses to do so. A term will be unfair where, contrary to the requirement of good faith, it causes significant imbalance in the parties' rights and obligations under the contract to the detriment of the consumer. In determining whether a term is fair it is necessary to: (i) take into account the nature of the subject matter of the contract; (ii) refer to all the circumstances existing when the term was agreed; and (iii) refer to all of the other terms of the contract or any other contract on which it depends. The CRA also applies substantially the same test of fairness to consumer notices and generally refers to term and notices interchangeably.

Schedule 2 contains an indicative and non-exhaustive “grey list” of terms of consumer contracts that may be regarded as unfair. Three of these "grey list" terms are new, having not been covered by the UTCCR. Paragraph 11 lists "a term which has the object or effect of enabling the trader to alter the terms of the contract unilaterally without a valid reason which is specified in the contract". Schedule 2 of the UTCCR contains a substantially similar provision at paragraph 1(j). Although paragraph 22 of the CRA (and paragraph 2(b) of Schedule 2 to the UTCCR) provides that this does not include a term by which a supplier of financial services reserves the right to alter the rate of interest payable by or due to the consumer, or the amount of other charges for financial services without notice where there is a valid reason if the supplier is required to inform the consumer of the alteration at the earliest opportunity and the consumer is free to dissolve the contract immediately.

A consumer contract may not be assessed for fairness to the extent that (i) it specifies the main subject matter of the contract; and/or (ii) the assessment is of the appropriateness of the price payable under the contract by comparison with the goods, digital content or services supplied under it; unless it appears on the "grey list" referenced above. A trader must ensure that a written term of a consumer contract, or a consumer notice in writing, is transparent i.e. that it is expressed in plain and intelligible language and is legible. Under the CRA, a trader must also ensure that the term is sufficiently prominent. The CMA considers this to be fully consistent with an interpretation of 'the core exemption' as intended to ensure that only those 'principal obligations' or price terms which are subject to the correcting forces of competition and genuine decision-making are fully assessable for fairness.

Where a term of a consumer contract is "unfair", it will not bind the consumer. However, the remainder of the contract will, so far as practicable, continue to have effect in every other respect. Where a term in a consumer contract is susceptible of multiple different meanings, the meaning most favourable to the consumer will prevail. In a shift from the old regime, under the CRA it is the duty of the court to consider the fairness of any given term. This can be done even where neither of the parties to proceedings has explicitly raised the issue of fairness.

The provisions in the CRA governing unfair contractual terms apply in respect of contracts entered into on or after the CRA Commencement Date. As stated above, UCTA and UTCCR will continue to apply to contracts entered into prior to the CRA Commencement Date. This new regime does not seem to be significantly different from the regime under the UTCCR and UCTA. However, this area of law is rapidly developing and new regulatory guidance and case law as a result of this new legislation can be expected. No assurance can be given that any changes in legislation, guidance or case law on unfair terms will not have a material adverse effect on the loans.

2.11 Distance Marketing

In the UK, the Financial Services (Distance Marketing) Regulations 2004 apply to, inter alia, credit agreements entered into on or after 31 October 2004 by means of distance communication (i.e. without any substantive simultaneous physical presence of the originator and the borrower). A regulated mortgage contract under the FSMA, if originated by a UK lender from an establishment in the UK, will not be cancellable under these regulations but will be subject to related pre-contract disclosure requirements in MCOB. Certain other credit agreements will be cancellable under these regulations if the borrower does not receive the prescribed information at the prescribed time, or in any event for certain unsecured lending. Where the credit agreement is cancellable under these regulations, the borrower may send notice of cancellation at any time before the end of the 14th day after the day on which the cancellable agreement is made, where all the prescribed information has been received or, if later, the borrower receives the last of the prescribed information.

If the borrower cancels the credit agreement under these regulations, then:

(a) the borrower is liable to repay the principal, and any other sums paid by the originator to the borrower under or in relation to the cancelled agreement, within 30 days beginning with the day of the borrower sending the notice of cancellation or, if later, the originator receiving notice of cancellation;

(b) the borrower is liable to pay interest, or any early repayment charge or other charge for credit under the cancelled agreement, only if the borrower received certain prescribed information at the prescribed time and if other conditions are met; and

(c) any security is treated as never having had effect for the cancelled agreement.

If a significant portion of the loans are characterised as being cancellable under these regulations, then there could be an adverse effect on its receipts in respect of those loans.

2.12 Consumer Protection from Unfair Trading Regulations 2008

On 11 May 2005, the European Parliament and the Council of the EU adopted a Directive (2005/29/EC) regarding unfair business-to-consumer commercial practices (the **Unfair Practices Directive**). Generally, this directive applies full harmonisation, which means that EU member states may not impose more stringent provisions in the fields to which full harmonisation applies. By way of exception, the Unfair Practices Directive permits member states to impose more stringent provisions in the fields of financial services and immovable property, such as mortgage loans. The Unfair Practices Directive provides that enforcement bodies may take administrative action or legal proceedings against a commercial practice on the basis that it is "unfair" within the Unfair Practices Directive.

The Unfair Practices Directive is implemented into UK law by the Consumer Protection from Unfair Trading Regulations 2008 (the **CPUTR**), which came into force on 26 May 2008. The CPUTR prohibit certain practices which are deemed "unfair" within the terms of the CPUTR. Breach of the CPUTR does not (of itself) render an agreement void or unenforceable, but is a criminal offence punishable by a fine and/or imprisonment. The possible liabilities for misrepresentation or breach of contract in relation to the underlying credit agreements may result in irrecoverable losses on amounts to which such agreements apply. The CPUTR did not initially provide consumers with a private act of redress. Instead, consumers had to rely on existing private law remedies based on the law of misrepresentation and duress. However, amendments to the CPUTR which entered into force on 1 October 2014 have given consumers a right to redress for certain prohibited practices, including a right to unwind agreements.

In addition, the Unfair Practices Directive is taken into account in reviewing rules under the FSMA. For example, MCOB rules for regulated mortgage contracts from 25 June 2010 prevent the lender from (a) repossessing the mortgaged property unless all other reasonable attempts to resolve the position have failed, which include considering whether it is appropriate to offer an extension of term, or conversion to interest-only for a period, or an alternative product, and (b) automatically capitalising a payment shortfall.

The Unfair Practices Directive provided for a transitional period until 12 June 2013 for the application of full harmonisation in the fields to which it applies. In March 2013, the European Commission published a report on the application of the Unfair Practices Directive, which indicated (among other things) that there is no case for further harmonisation in the fields of financial services and immovable property.

2.13 Other relevant legislation and regulation

The EU anti-money laundering regime was amended by the implementation of the EU Third Money Laundering Directive (Directive 2005/60/EC) (the **EU Third Money Laundering Directive**), which has imposed requirements in relation to such matters. As a result of the implementation of the EU Third Money Laundering Directive in the UK, the UK Money Laundering Regulations 2007 place a requirement on the Society to identify and 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. The European Commission published on 5 February 2013 two legislative proposals in relation to the EU anti-money laundering regime: (i) a directive on the prevention of the use of the financial system for the purpose of money laundering and terrorist financing (i.e. the **EU Fourth Money Laundering Directive**); and (ii) a regulation on information accompanying transfers of funds to secure "due traceability" of these transfers (the **Fund Transfer Regulation**). The EU Fourth Money Laundering Directive entered into force on 25 June 2015 and is to be implemented by 26 June 2017. The EU Fourth Money Laundering Directive aims to give effect to the updated Financial Action Task Force standards. It introduces a number of new requirements on relevant businesses and changes to some of the obligations found under the EU Third Money Laundering Directive. The government has published the draft Money Laundering Regulations 2017 that will implement the EU Fourth Money Laundering Directive and replace the Money Laundering Regulations 2007. The government's final policy decisions will be implemented through legislation to come into force by 26 June 2017. The Fund Transfer Regulation updates the rules regarding information on payers and payees accompanying transfers of funds, in any currency, for the purposes of preventing, detecting and investigating money laundering and terrorist financing (**ML/TF**), where at least one of the payment service providers involved in the transfer of funds is established in the EU. The overall objective of transposition is to ensure that the UK's anti-money laundering and counter terrorist financing (**AML/CTF**) regime is kept up to date, is effective and is proportionate. This will enable the UK to have a comprehensive AML/CTF regime and ensure that the UK's financial system is an increasingly hostile environment for ML/TF.

The UK Data Protection Act 1998 regulates the processing of data relating to individual customers (which will be replaced on 25 May 2018 by Regulation (EU) 2016/679 of the European Parliament and of the Council of 27

April 2016 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data, and repealing Directive 95/46/EC (General Data Protection Regulation)).

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. The revised directive on payment services (**PSD2**) came into force on 12 January 2016. Member states, including the UK, are required to transpose it into national law by 13 January 2018.

On 1 November 2009, the British Bankers' Association, the Building Societies Association and The UK Cards Association launched The Lending Code, a voluntary code on unsecured lending to personal and small business customers, which is monitored and enforced by the Lending Standards Board. The voluntary Banking Code and the Business Banking Code then ceased to have effect. The Lending Code has been revised a number of times since its introduction, most recently in September 2015. Whilst the sections of the Lending Code applicable to micro-businesses remain unchanged, in respect of personal customers the Lending Code was replaced by the Standards of Lending Practice (**SLP**) in July 2016. The SLP will apply to business customers from 1 July 2017. The SLP are voluntary and set the benchmark for good lending practice in the UK.

Supervisory Statement SS20/15 on supervising building societies' treasury and lending activities sets out the PRA's expectations in respect of building societies' compliance with applicable law and regulation in these areas of activity. The Supervisory Statement was updated on 23 January 2017 and describes the key lending and treasury risks to which societies are exposed, and sets out a framework describing different potential models for managing and controlling these risks.

In September 2016, following a consultation by the PRA earlier that year, the PRA published Policy Statement PS 28/16 and a final Supervisory Statement SS 13/16 both entitled "Underwriting standards for buy-to-let mortgage contracts". The Policy Statement applies to all PRA regulated firms that undertake buy-to let lending that are not already subject to FCA regulation. The Supervisory Statement does not apply to regulated mortgage contracts, consumer buy-to-let mortgages, but-to-let mortgages with corporates or which has a term of 12 months or less or to an application from an existing customer for consent to let. The Supervisory Statement contains the PRA's minimum standards that firms should follow when underwriting buy-to-let mortgages (affordability testing) (including when dealing with portfolio landlords who have four or more buy-to-let properties), clarifies the PRA's expectation regarding the application of the small and medium sized (**SME**) supporting factor on buy-to-let mortgages and details the PRA's expectations regarding adequate risk management and controls. The PRA expects that regulated firms ensure that the standards are followed by other firms undertaking buy-to-lending within their group. The standards are to be implemented on a phased basis with all standards implemented by 30 September 2017.

Potential effects of any additional regulatory changes

No assurance can be given that additional regulatory changes by the CMA, the FCA, the PRA, the FOS or any other regulatory authority will not arise with regard to the financial services market in the UK generally, the Society's particular sector in that market or specifically in relation to it. Any such action or developments or compliance costs may have a material adverse effect on the Society and its respective businesses and operations.

PART XX – TAXATION

1. UNITED KINGDOM TAXATION

The following statements are intended only as a general guide to certain limited 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 published practice of HM Revenue and Customs (HMRC) (which may not be binding on HMRC) as at the date of this Prospectus, both of which are subject to change at any time, possibly with retrospective effect, which may result in UK tax consequences different from those described below.

The following statements 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 for UK tax purposes, 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 (but not limited to), 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 and domiciled for tax purposes in the UK and who receives a Distribution from the Society will, for the tax year from 6 April 2017, pay a nil rate of tax on the first £5,000 of dividend income received in a tax year (the **Nil Rate Amount**). For these purposes "dividend income" includes UK and non-UK source dividends and certain other distributions in respect of shares (including a Distribution from the Society). The rates of tax on dividend income received by such an individual holder of CCDS in excess of the Nil Rate Amount are, for the tax year 6 April 2017 to 5 April 2018: (a) 7.5 per cent. for dividend income within the basic rate tax band; (b) 32.5 per cent. for dividend income within the higher rate tax band; and (c) 38.1 per cent. for dividend income within the additional rate tax band.

Dividend income that is within the Nil Rate Amount counts towards an individual's basic or higher rate limits, and will therefore potentially affect the level of savings allowance to which they are entitled, and the rate of tax that is due on any dividend income in excess of the Nil Rate Amount. In calculating into which tax band any dividend income over the Nil Rate Amount falls, savings and dividend income are treated as the highest part of an individual's income. Where an individual has both savings and dividend income, the dividend income is treated as the top slice. The UK Government announced in the Spring Budget in March 2017 its intention to reduce the Nil Rate Amount from £5,000 to £2,000 from 6 April 2018.

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. However, the exemptions are not comprehensive and are subject to anti-avoidance rules and other conditions.

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 (currently 19 per cent. from 1 April 2017, reducing to 17 per cent. from 1 April 2020).

1.2 Taxation of disposals

Broadly, for the purpose of UK tax on chargeable gains, the amounts paid by a holder for CCDS will generally constitute the base cost of his holdings in those CCDS.

A disposal or deemed disposal of CCDS by a holder who is resident in the UK for tax purposes may, depending on the holder's circumstances and subject to any available exemption or relief, give rise to a chargeable gain or an allowable loss for the purposes of UK taxation of chargeable gains.

For UK resident individual holders of CCDS, the principal factors that will determine the UK capital gains tax position on a disposal or deemed disposal of the CCDS are the extent to which the holder realises any other capital gains in the UK tax year in which the disposal is made, the extent to which the holder has incurred capital losses in that or earlier UK tax years, the income tax band to which the holder belongs, and the level of the annual allowance of tax-free gains in that UK tax year (the **Annual Exempt Amount**). For the tax year from 6 April 2017 to 5 April 2018, an individual who is resident in the UK for tax purposes is entitled to an Annual Exempt Amount of £11,300 without being liable to capital gains tax. Any chargeable gain in excess of the Annual Exempt Amount is subject to capital gains tax at 10 per cent. for individuals within the basic rate tax band and 20 per cent. for individuals within the higher or additional rate tax bands.

A UK resident corporate holder within the charge to UK corporation tax should be entitled to claim an indexation allowance to reduce the amount of chargeable gain realised on a disposal. Indexation allowance cannot create or increase an allowable loss. UK corporation tax is charged on chargeable gains at the rate applicable to that company (currently 19 per cent. from 1 April 2017, reducing to 17 per cent. from 1 April 2020).

A holder who is not resident in the UK for tax purposes is generally not subject to UK capital gains tax, unless such a holder carries on a trade, profession or vocation in the UK through a branch or agency or, in the case of a non-UK resident corporate holder, a permanent establishment to which the holding of CCDS is attributable.

Generally, an individual who acquires his or her CCDS while resident, or ordinarily resident in the UK for tax purposes, but who subsequently ceases to be UK resident for a period of 5 years of less and who disposes of his or her CCDS during that period may be liable, on his or her return to the UK, to UK capital gains tax on any chargeable gain realised on the disposal (subject to any available exemption or relief). Special rules may apply to holders who are subject to tax on a "split-year" basis and such holders should seek specific professional advice if they are in any doubt as to their position.

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 CCDS (including the Further CCDS) 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 Existing CCDS would be admitted to its systems without a 97A election applying to the Existing CCDS, and each Clearing System has re-confirmed that position in respect of the issue of the Further 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 value of the consideration given under the agreement to transfer the CCDS. This charge to SDRT would be discharged if stamp duty is duly paid (rounded up, if necessary, to the nearest £5) on the instrument transferring CCDS in definitive form (or if it is certified as exempt), within six years of the date of the agreement.

2. THE PROPOSED FINANCIAL TRANSACTIONS TAX (FTT)

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

The 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. Primary market transactions referred to in Article 5(c) of Regulation (EC) No 1287/2006 are expected to be exempt.

Under current proposals the FTT could apply in certain circumstances to persons both within and outside of 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.

However, the FTT proposal remains subject to negotiation between participating Member States. It may therefore be altered prior to any implementation, the timing of which remains unclear. Additional EU Member States may decide to participate. Prospective holders of CCDS are advised to seek their own professional advice in relation to the FTT.

3. FOREIGN ACCOUNT TAX COMPLIANCE ACT

Pursuant to certain provisions of the U.S. Internal Revenue Code of 1986, commonly known as FATCA, a **foreign financial institution** may be required to withhold on certain payments it makes (**foreign passthru payments**) to persons that fail to meet certain certification, reporting, or related requirements. The Society is a foreign financial institution for these purposes. A number of jurisdictions (including the United Kingdom) have entered into, or have agreed in substance to, intergovernmental agreements with the United States to implement FATCA (**IGAs**), which modify the way in which FATCA applies in their jurisdictions. Under the provisions of IGAs as currently in effect, a foreign financial institution in an IGA jurisdiction would generally not be required to withhold under FATCA or an IGA from payments that it makes. Certain aspects of the application of the FATCA provisions and IGAs to instruments such as the CCDS, including whether withholding would ever be required pursuant to FATCA or an IGA with respect to payments on instruments such as the CCDS, are uncertain and may be subject to change. Holders should consult their own tax advisors regarding how these rules may apply to their investment in the CCDS. In the event any withholding would be required pursuant to FATCA or an IGA with respect to payments on the CCDS, no person will be required to pay additional amounts as a result of the withholding.

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. On 6 December 2013, the Society issued 5,500,000 CCDS.

2.2 By a resolution of the Board passed on 5 September 2017, a target issue size of between 3.5 million and 5 million Further CCDS was authorised and approved, with the final number of Further CCDS to be determined, within the target range set by the Board, by a committee of the Board. The Board also approved the granting of the Over-allotment Option described herein and the issue of additional Further CCDS pursuant to the Over-allotment Option, if exercised, in an amount not exceeding 15 per cent. of the target issue size (representing, at the top of the target range of 5 million Further CCDS, an additional 750,000 Further CCDS).

2.3 By a resolution of a committee of the Board passed on 8 September 2017, the final number of Further CCDS to be issued pursuant to the Offer was authorised and approved.

2.4 The Further CCDS are intended to be issued on the date of Admission. There are 5,500,000 Existing CCDS currently in issue at the date of this Prospectus. 5,000,000 Further CCDS will be issued pursuant to the Offer, resulting in an aggregate number CCDS outstanding of 10,500,000, with the Further CCDS representing approximately 47.619 per cent. of the aggregate number of CCDS.

CCDS constitute deferred share capital and rank junior to the Society's PIBS and additional tier 1 instruments (including the AT1 Securities). 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 IX: 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 IX: 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 Consolidated Historical Financial Statements incorporated by reference 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 incorporated by reference 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 The Existing CCDS have been registered with the International Security Identification Number (ISIN) GB00BBQ33664. The Further CCDS will upon issue be consolidated and form a single series with the Existing CCDS, and accordingly upon issue will also be registered under that same ISIN.

3. SUMMARY OF THE SOCIETY'S MEMORANDUM AND RULES

The Society's current Memorandum and Rules 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 Conditions 11 and 12 of the conditions of issue as described in "*Part IX: 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 in these circumstances 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 except that, 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 (including a transfer of the Society's business to the subsidiary of another mutual society). 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 Officer, 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 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 three classes of deferred share capital in issue:

- Permanent Interest Bearing Shares (**PIBS**);
- Additional Tier 1 (**AT1**) Instruments; and
- CCDS.

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 the AT1 instruments 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:

(i) The floating rate PIBS payable at 0.5% above 3 month LIBOR are repayable, at the option of the Society, in whole on 6 February, 6 May, 6 August and 6 November in each year.

(ii) The 6.875% PIBS are repayable, at the option of the Society, in whole on 10 January 2019 or any fifth anniversary thereafter.

(iii) 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.

(iv) 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.

(v) The 5.769% PIBS are repayable, at the option of the Society, in whole on 6 February 2026 or any fifth anniversary thereafter.

(vi) The 7.859% PIBS are repayable, at the option of the Society, in whole on 13 March 2030 or any fifth anniversary thereafter.

(vii) The floating rate PIBS payable at 2.4% above 6 month LIBOR are only 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.

The extent to which PIBS 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.

On 15 December 2016, the Society redeemed all £140 million in outstanding principal amount of its 6 per cent. PIBS in accordance with their terms.

The aggregate outstanding principal amount of PIBS as at 4 April in each of 2017, 2016 and 2015, respectively, is as follows:

	As at 4 April		
	2017	2016	2015
		(*£ millions*)	
Floating rate PIBS payable at 3 month LIBOR plus 0.5%	3	3	3
6.875% PIBS	10	10	10
7.25% PIBS	33	33	33
6.25% PIBS	44	44	44
5.769% PIBS	84	84	84
7.859% PIBS	38	38	38
6% PIBS	—	140	140
Floating rate PIBS payable at 6 month LIBOR plus 2.4%	10	10	10
Total	**222**	**362**	**362**

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.

There have been no changes in the amount of the Society’s PIBS outstanding since 4 April 2017.

AT1 instruments

The AT1 Securities are also deferred shares in the Society for the purposes of section 119 of the Act and rank *pari passu* with each other and the PIBS 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 Society has a single series of £1 billion AT1 instruments (the **AT1 Securities**) outstanding. These AT1 Securities were issued in March 2014. AT1 instruments have no maturity date. The AT1 Securities are repayable at the option of the Society (subject to the consent of the PRA and to compliance with prudential rules) on 20 June 2019 and on every fifth anniversary thereafter.

The aggregate principal amount of AT1 instruments outstanding as at 4 April in each of 2015, 2016 and 2017 was £1 billion.

AT1 instruments pay a fully discretionary, non-cumulative fixed coupon at an initial rate of 6.875 per cent. per annum. The rate will reset on 20 June 2019 and every five years thereafter to the five year mid swap rate plus 4.88 per cent. Coupons are paid semi-annually in June and December. A coupon of £19 million was paid on 20 June 2014 and coupons of £34 million were paid on 22 December 2014, 22 June 2015, 21 December 2015, 20

June 2016, 19 December 2016 and 20 June 2017. The coupons paid and declared represent the maximum non-cumulative fixed coupon of 6.875 per cent.

If the fully-loaded CET1 ratio for the Society, on either a consolidated or unconsolidated basis, falls below 7 per cent. the AT1 instruments convert to CCDS at the rate of one CCDS share for every £80 of AT1 holding.

The rights of the holders of the AT1 instruments are markedly different from those of shareholders in a company, including, in particular, as to voting rights and protection of minorities. For example, each holder of AT1 instruments only has one vote at general meetings of the Society, irrespective of the number of instruments 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 investors which hold their AT1 instruments through a Euroclear or Clearstream, Luxembourg account, as such investors will not themselves be entered on a register as holder of the relevant AT1 instruments. Instead, the holder entered on the register for the AT1 instruments will be the nominee for the common depositary for Euroclear and Clearstream, Luxembourg, and the relevant investor's holding of AT1 instruments 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 AT1 instruments 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 AT1 instruments held through Euroclear and Clearstream, Luxembourg will be held by the nominee. Such nominee will be entered in the register as the holder of the AT1 instruments held in this manner, and will be entitled to exercise the voting and other members' rights attributable to all those AT1 instruments so held.

There have been no changes in the amount of the Society's AT1 instruments outstanding since 4 April 2017.

CCDS

The CCDS are also deferred shares in the Society for the purposes of section 119 of the Act and rank behind the claims of depositors, creditors and investing members, including the claims of subordinated debt holders and holders of PIBS and AT1 instruments, of the Society.

As at the date of this Prospectus, 5,500,000 CCDS, which were issued in December 2013 at £100 per share, are in issue. CCDS are perpetual instruments.

In the event of a winding up or dissolution of the Society and if there was surplus available, the amount that the investor would receive for each CCDS held is based on the Core Capital Contribution Proportion, capped at the Average Principal Amount, in each case as calculated in accordance with Condition 4 of the CCDS.

As at the date of this Prospectus, the Core Capital Contribution Proportion is 8.59 per cent. and the Average Principal Amount is £100 per CCDS. Following the issue of the Further CCDS, the Core Capital Contribution Proportion and the Average Principal Amount will be recalculated in accordance with Condition 4 of the CCDS. Based on the issue size of 5,000,000 Further CCDS and the Purchase Price of £161.408 (rounded to three decimal places) per Further CCDS and having regard to Conditions 4.4, 4.5 and 4.6 of the CCDS, the Society indicatively expects that the Core Capital Contribution Proportion will increase to approximately 16.29378 per cent. and that the Average Principal Amount will increase to approximately £129.24 per CCDS as a result of the issue of the Further CCDS. The recalculated Core Capital Contribution Proportion and Average Principal Amount will be published on the Society's website as soon as reasonably practicable and in accordance with Condition 4.

The aggregate principal amount of CCDS outstanding as at 4 April in each of 2015, 2016 and 2017 was £550 million.

There is a cap placed on the amount of distributions that can be paid to holders of CCDS in any financial year. The cap is currently set at £15.67 per share and is adjusted annually in line with CPI.

The following distributions have been paid in respect of the CCDS.

Date paid	**Type of distribution**	**Amount**
20 June 2014	Final distribution for the financial year ended 4 April 2014	£30 million
22 December 2014	Interim distribution in respect of the period to 30 September 2014	£28 million
22 June 2015	Final distribution in respect of the financial year ended 4 April 2015	£28 million
21 December 2015	Interim distribution in respect of the period to 30 September 2015	£28 million
20 June 2016	Final distribution in respect of the financial year ended 4 April 2016	£28 million
20 December 2016	Interim distribution in respect of the period to 30 September 2016	£28 million
20 June 2017	Final distribution in respect of the financial year ended 4 April 2017	£28 million

The rights of the holders of the CCDS are described in detail in "*Part IX:Conditions of Issue of the Core Capital Deferred Shares*".

There have been no changes in the amount of CCDS outstanding since 4 April 2017.

5. DIRECTORS

5.1 The biographies of the Directors are set out in "*Part XII: 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)
David Roberts	Chairman and Non-Executive Director	Campion Willcocks Limited	Current
		Dr Challoner's Grammar School	Current
		NHS England	Current
		Bank of Scotland PLC	Previous
		HBOS PLC	Previous
		Lloyds Bank PLC	Previous
		Lloyds Banking Group PLC	Previous
		Mind Gym Limited	Previous
Joe Garner	Chief Executive Officer	British Triathlon Foundation Trust	Current
		Newta Limited	Current
		HSBC Bank PLC	Previous
		HSBC Life (UK) Limited	Previous
Mark Rennison	Chief Financial Officer	Arkose Funding Limited	Current
		Confederation Mortgage Services Limited	Current
		Exeter Trust Limited	Current
		First Nationwide	Current
		LBS Mortgages Limited	Current
		Nationwide Anglia Property Services Limited	Current
		Nationwide Housing Trust Limited	Current
		Nationwide Investments (No. 1) Limited	Current
		Nationwide Lease Finance Limited	Current
		Nationwide Mortgage Corporation Limited	Current

Name	Position	Company/Partnership	Status (Current/ Previous)
		Nationwide Syndications Limited	Current
		NBS Fleet Services Limited	Current
		Piper Javelin Holding Company Limited	Current
		Piper Javelin No 1 Limited	Current
		Staffordshire Leasing Limited	Current
		Staffordshire Financial Services Limited (Dissolved)	Previous
Tony Prestedge	Chief Relationships and Distribution Officer	Dunfermline BS Nominees Limited	Current
		Monument (Sutton) Limited	Current
		Nationwide Anglia Property Services Limited	Current
		The Derbyshire (Premises) Limited	Current
		The Nationwide Foundation	Current
Chris Rhodes	Chief Products and Propositions Officer	At.Home Nationwide Limited	Current
		Derbyshire Home Loans Limited	Current
		E-Mex Home Funding Limited	Current
		Jubilee Mortgages Limited	Current
		National Numeracy	Current
		The Lending Standards Board Limited	Current
		The Mortgage Works (UK) Plc	Current
		UCB Home Loans Corporation Limited	Current
		The Nationwide Foundation	Previous
		Visa Europe Limited	Previous
		Visa Europe Services LLC	Previous
Rita Clifton	Non-Executive Director	Ascential plc	Current
		ASOS plc	Current
		BrandCap Limited	Current
		Populus Group Limited	Current
		Populus Limited	Current
		Rita Clifton Ltd	Current
		Dixons Retail Group Limited	Previous
		Henley Festival Limited	Previous
		Interbrand UK Limited	Previous
		The British United Provident Association Limited	Previous
		The Conservation Volunteers	Previous
		TCV Trading 1 Limited (Dissolved)	Previous
		TCV Trading 2 Limited (Dissolved)	Previous
		WWF-UK	Previous
Mai Fyfield	Non-Executive Director	Jupiter Entertainment	Previous
Mitchel Lenson	Non-Executive Director	The Currency Cloud Group Limited	Current
		Eclipse Film Partners No. 39 LLP	Current
		The Invicta Film Partnership No. 37 LLP	Current
		Eclipse Film Partnership No 4 LLP	Previous
		Elysian Fuels 1 LLP (In Liquidation)[2]	Previous

[2] Mitchel Lenson is a partner in each of Elysian Fuels 1 LLP and Elysian Fuels 2 LLP, both of which are in compulsory liquidation.

Name	Position	Company/Partnership	Status (Current/ Previous)
		Elysian Fuels 2 LLP (In Liquidation)[2]	Previous
		MVA Consultant Services Limited (Dissolved)	Previous
Kevin Parry	Non-Executive Director	Aberdeen Asset Management PLC	Current
		Daily Mail and General Trust plc	Current
		Intermediate Capital Group plc	Current
		KAH Parry Limited	Current
		Royal National Children's Foundation	Current
		Standard Life Aberdeen plc	Current
		Standard Life Investments Holdings Limited	Current
		Schroder & Co Limited	Previous
		Schroder Investment Management Limited	Previous
		Schroder Pension Management Limited	Previous
		Schroders PLC	Previous
Lynne Peacock	Senior Independent Director and Non-Executive Director	Aberdeen Asset Management PLC	Current
		Elevate Portfolio Services Limited	Current
		Hawkins Residents Limited	Current
		Scottish Water Business Stream Holdings Limited	Current
		Scottish Water Horizons Holdings Limited	Current
		Serco Group plc	Current
		Standard Life Savings Limited	Current
		Standard Life Assurance Limited	Current
		Standard Life Aberdeen plc	Current
		Standard Life Investments Holdings Limited	Current
		The Westminster Society for People with Learning Disabilities	Current
		Standard Life Foundation	Previous
Baroness Usha Prashar	Non-Executive Director	British Council (Trustee)	Current
		Philharmonia Trust Limited	Current
		UK Community Foundations (Hon President)	Current
		Cumberland Lodge	Previous
		The Ditchley Foundation	Previous
Tim Tookey	Non-Executive Director	Old Mutual Wealth Management Limited	Current
		Westmoreland Court Management (Beckenham) Limited	Current
		Alliance Trust Savings Limited	Previous
		Friends Life Group Limited	Previous
		Friends Life Holdings PLC	Previous
Gunn Waersted	Non-executive Director	Lukris Invest AS	Current
		Petoro AS	Current
		Telenor ASA	Current
		Nordea Bank Denmark	Previous
		Nordea Bank Finland	Previous
		Nordea Life and Pension AB	Previous
		Nordea Bank SA	Previous
		Finans Norge	Previous
		The Norwegian Depository Guaranty Fund	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, been a 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) save as disclosed in this paragraph 5, 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 outstanding CCDS or 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 5 September 2017 (the latest practicable date prior to the publication of this Prospectus) nor are expected to have any such interests immediately following Admission.

Executive Directors are entitled to receive deferred bonuses, the amount of which is in part linked to the market price of CCDS. However, it is the Society's policy that the Directors do not hold direct interests in CCDS.

6.2 It is not expected that any Director will have any interest in the Further CCDS to be issued 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 So as the Society is aware, no person has any interest in the Society's capital or voting rights which is notifiable under English law.

6.4 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 does not have equity shareholders, and has been managed for the benefit of its members, being its current account, retail savings and residential mortgage customers (as well as the holders of its deferred shares, including its PIBS, additional tier 1 instruments and CCDS). 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.

6.5 Save as disclosed in "*Part XII: Directors, Employees and Corporate Governance*", there are no potential conflicts of interest between any duties to the Society, as issuer, of the Directors and their private interests or other duties. The Society's governance rules require any conflicts of interest to be disclosed and no Director may vote on a proposal in relation to which he has a conflict.

6.6 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 2017 is £8.6 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
Joe Garner	5 April 2016	5 April 2016
Tony Prestedge	28 August 2007	28 August 2007
Mark Rennison	1 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 awarded to the Executive Directors for services in all capacities in the financial year ended 4 April 2017:

	Fixed remuneration			Variable remuneration			
	Salary per annum	Benefits(1)	Pension allowance	Variable remuneration(2)	Buyout award(3)	Total pay package including buyout award(4)	Total pay package excluding buyout award
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Joe Garner	840	181	336	958	1,071	3,386	2,315
Tony Prestedge	560	87	185	496	—	1,328	1,328
Mark Rennison	614	152	203	523	—	1,492	1,492
Chris Rhodes	568	50	187	484	—	1,289	1,289

Notes:

(1) Taxable benefits include private medical cover, car allowance and the use of a company vehicle and driver when required for business purposes.

(2) Variable remuneration consists of the awards under the Directors Performance Award. Details of this plan and associated performance measures are set out under "*Directors' compensation*" in "*Part XII: Directors, Employees and Corporate Governance*". Note that Directors Performance Award amounts are determined based on salary for the 12-month period ending 31 March.

(3) This buy-out figure represents two elements: (a) the initial total value of a deferred award linked to the value of the Society's CCDS, 74 per cent. of which was paid in the financial year ended 4 April 2017 with the remaining 26 per cent. due to be paid in March 2018; and (b) cash payments totalling £589,029 which are due to be paid in four instalments between July 2017 and August 2018.

(4) This total value (£1,071 thousand) of the buy-out awards does not form part of ongoing remuneration. If this amount is excluded, the total single figure would be £2,315 thousand

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 from the Society to the individual and a notice period of six months from the individual to the Society. Each contract includes a provision for a termination payment in lieu of notice of up to a maximum of 12 months' base salary and benefits, with the exception of C.S. Rhodes and J.D. Garner whose contracts provide for payment in lieu of notice up to a maximum of 12 months' base salary only. In addition, a payment may be made in respect of current and previous plans 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 annual review)	Total fees for year ended 4 April 2017 £'000 (Notes 1,2, 3)
David Roberts[(1)]	1 September 2014	July 2021	383
Rita Clifton	1 July 2012	July 2019	95
Mai Fyfield	2 June 2015	July 2022	74
Mitchel Lenson	18 July 2011	July 2018	105
Kevin Parry	23 May 2016	July 2023	99
Lynne Peacock[(2)]	18 July 2011	July 2018	138
Roger Perkin[(3)]	20 April 2010	July 2016	43
Baroness Usha Prashar	18 January 2017	July 2023	16
Tim Tookey	2 June 2015	July 2022	130
Gunn Waersted[(4)]	1 June 2017	July 2024	N/A

Notes:

In each case it is assumed that each non-executive director will serve two three-year terms (subject to annual review) from the date of their *election* by the Society's members at AGM.

(1) David Roberts joined the Board as Chairman Elect in September 2014, he was appointed Chairman on 23 July 2015.
(2) Lynne Peacock was appointed Senior Independent Director on 21 July 2016.
(3) Roger Perkin retired on 21 July 2016.
(4) Gunn Waersted will stand for election at the 2018 AGM.

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
Chairman	389
Basic fee	66
Senior Independent Director[1]	40
Chairman of the Audit Committee or Board Risk Committee	35
Member of the Audit Committee or Board Risk Committee	15
Remuneration Committee Chairman	35
Remuneration Committee member	15
Nomination and Governance Committee member	5
IT Strategy and Resilience Committee Chairman	25
IT Strategy and Resilience Committee member	10

Note:

(1) The Senior Independent Director fee is inclusive of committee membership fees. Committee Chairmen fees will continue to be paid

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 2017.

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*) and in Note 38 to the 2017 Consolidated Financial Statements, 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 4 April 2017, the Society had outstanding loans to Directors or persons connected to Directors totalling £1.1 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 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 33 to the 2017 Consolidated Financial Statements.

The total amounts set aside or accrued by the Society or its subsidiaries to provide pension, retirement or similar benefits is £423 million as at 4 April 2017.

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 Syndications Limited	Syndicated lending
The Mortgage Works (UK) plc	Mortgage lender
Derbyshire Home Loans Limited	Mortgage lender
E-Mex Home Funding Limited	Mortgage lender
UCB Home Loans Corporation Limited	Mortgage lender

The above subsidiary undertakings, with the exception of Nationwide Syndications Limited, are all regulated entities.

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 and the Banks 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 Purchase Price, the Further 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, to use reasonable endeavours to procure subscribers for the Further CCDS under the Offer and, failing which, the Banks have severally agreed to subscribe for themselves (in agreed proportions), the Further CCDS under the Offer. For the avoidance of doubt, the underwriting obligations of the Banks relate only to the settlement risk that an investor who has been allotted Further CCDS in the Offer fails to make payment for such Further CCDS on or before the Issue Date;

(b) the Banks will be entitled to receive from the Society a commission based on the number of Further CCDS allotted or sold pursuant to the Offer, together with any applicable value added tax;

(c) the Society's obligation to issue Further CCDS under the Underwriting Agreement is, and the obligations of the Joint Bookrunners to use reasonable endeavours to procure subscribers for the Further CCDS under the Offer and failing which, along with BNPP and NatWest Markets, to severally subscribe for themselves (in agreed proportions), the Further 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 14 September 2017 (or such later date which the Society and the Joint Bookrunners, on behalf of the Banks, may agree).

(d) the Society granted the Stabilisation Manager (on behalf of the Banks) the Over-allotment Option, pursuant to which the Joint Bookrunners were entitled to require the Society to make available additional Further CCDS of up to 15 per cent. of the aggregate number of Further CCDS available in the Offer (before any exercise of the Over-allotment Option) to cover over-allotments, if any, made in connection with the Offer. The Over-allotment Option was capable of being exercised, in whole or in part, at any time during the period commencing on the date on which adequate public disclosure of the Issue Price was made and ending on the London business day falling immediately prior to this Prospectus. The Over-allotment Option was not exercised, and accordingly no Further CCDS are to be issued as a result of the exercise of the Over-allotment Option;

(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 has given customary representations, warranties, undertakings and indemnities to the Banks. The liabilities of the Society under the Underwriting Agreement are not limited as to time or 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 Banks.

12. MATERIAL CONTRACTS

Other than the Underwriting Agreement (as to which see paragraph 11 (*Underwriting Arrangements*) above) and the Subscription and Transfer Agreement (as to which see below), 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 and the Subscription and Transfer 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.

Subscription and Transfer Agreement

As described at paragraph 11 "*Settlement of the Offer*" of "Part VII – *Details of the Offer*", instead of receiving cash as consideration for the issue of the Further CCDS, the Society will issue the Further CCDS in consideration for the Subscriber transferring its holdings of redeemable preference shares in Stockwood Finance to the Society. The Society, Stockwood Finance and the Subscriber have entered into a subscription and transfer agreement on 11 September 2017 (the **Subscription and Transfer Agreement**), in relation to the subscription and transfer of redeemable preference shares in Stockwood Finance. Under the terms of this agreement, provided certain conditions are met, the Subscriber (or an agent appointed for such purpose) will use the proceeds received from investors in the Further CCDS to subscribe for redeemable preference shares in Stockwood Finance. The Society will issue the Further

CCDS in consideration for the Subscriber transferring its holdings of redeemable preference shares in Stockwood Finance to the Society.

Accordingly, immediately following the issue of the further CCDS, the Society will own the entire issued share capital of Stockwood Finance, whose only assets will be its cash reserves and a receivable due from the Society in respect of the commissions and expenses payable to the Banks, which assets will in aggregate represent an amount approximately equal to the gross proceeds of the issue of the Further CCDS. The Society will be able to utilise this amount if Stockwood Finance elects to redeem the redeemable preference shares or to advance the funds to the Society by way of loan in the interim.

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 holds provisions for customer redress to cover the costs of remediation and redress in relation to past sales of financial products and post sales administration, including compliance with consumer credit legislation and other regulatory requirements. The customer redress provisions recognised of £152 million in the financial year ended 4 April 2017, £138 million in the financial year ended 4 April 2016 and £72 million in the financial year ended 4 April 2015 are primarily in respect of PPI and Plevin, including the cost of administering these claims. When assessing the adequacy of its PPI provision, Nationwide has considered the implications of the guidance published by the Financial Conduct Authority (FCA) in its March 2017 policy statement (PS17/03), including the expected impact of the Plevin case.

14. RELATED PARTY TRANSACTIONS

Save as disclosed in note 38 to the 2017 Consolidated Financial Statements, 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 Statements 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 4 April 2017, the date to which the last audited consolidated financial statements of the Society were prepared.

17. GENERAL

17.1 The total costs and expenses of, and incidental to, the issue of the Further CCDS, Admission and the Offer (including professional fees and expenses and the costs of printing and distribution of documents) are estimated to be approximately £12 million and are payable by the Society. Included within the total are commissions which are expected to be approximately £10 million payable to the Banks.

17.2 As described at paragraph 11 "*Settlement of the Offer*" of "Part VII – *Details of the Offer*", instead of receiving cash as consideration for the issue of the Further CCDS, the Society will issue the Further CCDS in consideration for the Subscriber transferring its holdings of redeemable preference shares in Stockwood Finance to the Society. Accordingly, immediately following the issue of the Further CCDS, the Society will own the entire issued share capital of Stockwood Finance, whose only assets will be its cash reserves and a receivable due from the Society in respect of the commissions and expenses payable to the Banks, which assets will in aggregate represent an amount approximately equal to the gross proceeds of the issue of the Further CCDS. The Society will be able to utilise this amount if Stockwood Finance elects to redeem the redeemable preference shares or to advance the funds to the Society by way of loan in the interim. The total net proceeds from the Offer after settling fees, expenses and commissions payable by the Society, are expected to amount to approximately £795 million.

17.3 The Society is dependent upon its authorisation under the FSMA, with permission to undertake, among other things, deposit-taking, mortgage, and certain consumer credit related, insurance and investment activities. See generally "*Part XIX: Supervision and Regulation*".

17.4 Statutory accounts of the Society for each of the financial years ended 4 April 2017, 4 April 2016 and 4 April 2015, which are incorporated by reference in this document, 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).

18. 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 Consolidated Historical Financial Statements;

(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 IX: Conditions of Issue of the Core Capital Deferred Shares*".

2015 Financial Statements	The Society's audited consolidated financial statements (including the notes thereto and the audit report in respect thereof) as at, and for the year ended, 4 April 2015, as incorporated by reference in this Prospectus.
2016 Financial Statements	The Society's audited consolidated financial statements (including the notes thereto and the audit report in respect thereof) as at, and for the year ended, 4 April 2016, as incorporated by reference in this Prospectus.
2017 Financial Statements	The Society's audited consolidated financial statements (including the notes thereto and the audit report in respect thereof) as at, and for the year ended, 4 April 2017, as incorporated by reference in this Prospectus.
Act	the UK Building Societies Act 1986, as amended.
Admission	admission of the Further 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 dated 6 December 2013 entered into between the Society and Citibank, N.A., London Branch, as amended from time to time.
APMs	Alternative Performance Measures.
AT1 Securities	The Society's £1,000,000,000 Reset Perpetual Contingent Convertible Additional Tier 1 Capital Securities (ISIN: XS1043181269).
ATMs	automatic telling machines.
Authorities	HM Treasury, BoE (including the PRA) and the FCA.
Average Principal Amount	as defined in Condition 4.5 in "*Part IX: Conditions of Issue of the Core Capital Deferred Shares*"
Bank Recovery and Resolution Directive	Directive 2014/59/EU of the European Parliament and of the Council of 15 May 2014 establishing a framework for the recovery and resolution of credit institutions and investment firms.
Banking Act	the Banking Act 2009, as amended.
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).

Banks	The Joint Bookrunners and the Co-lead Managers.
Barclays	Barclays Bank PLC, a company registered in England and Wales with company number 01026167 and authorised by the PRA and regulated by the PRA and the FCA.
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 required to be implemented in Europe over a number years commencing 1 January 2014.
BoE	the Bank of England.
BMR	the Society's Base Mortgage Rate.
BNPP	BNP Paribas, a company incorporated in France with limited liability with commercial register number 662 042 449 and is lead supervised by the European Central Bank (**ECB**) and the *Autorité de Contrôle Prudentiel et de Résolution* (**ACPR**). BNP Paribas is authorised by the ECB, the ACPR and the PRA and subject to limited regulation by the FCA and PRA.
BofA Merrill Lynch	Merrill Lynch International, a company registered in England and Wales and authorised by the PRA and regulated by the PRA and the FCA.
BRRD	See "Bank Recovery and Resolution Directive" above.
Cap	the prevailing periodic investment returns cap on Distributions in respect of the CCDS 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 IX: Conditions of Issue of the Core Capital Deferred Shares*" in the definition of Capital Rules.
Capital Rules	as defined in Condition 17 in "*Part IX: Conditions of Issue of the Core Capital Deferred Shares*".
CCDS	Core Capital Deferred Shares.
CCDS holder	(i) where used in "*Part IX: Conditions of Issue of the Core Capital Deferred Shares*"), has the meaning given in Condition 17 in "*Part IX: Conditions of Issue of the Core Capital Deferred Shares*"; and (ii) otherwise, means the holder of any CCDS and, where the context admits, may include a person holding a beneficial

interest in CCDS through Euroclear or Clearstream, Luxembourg.

CCDS Register	the records of the Society maintained by the Registrar constituting the register of members for the purposes of the CCDS.
CCLB	countercyclical leverage buffer.
CCyB	countercyclical capital buffer.
CET1	common equity tier 1 (the highest-quality regulatory capital under the Capital Rules).
Citigroup	Citigroup Global Markets Limited, a company registered in England and Wales with company number 01763297 and authorised by the PRA and regulated by the PRA and the FCA.
Clearing Systems	Euroclear, Clearstream, Luxembourg and any successor or replacement clearing systems approved by the Registrar.
Clearstream, Luxembourg	Clearstream Banking, S.A.
Closing	the crediting of the Further CCDS to Euroclear and Clearstream accounts.
CMA	the Competition and Markets Authority
CML	the Council of Mortgage Lenders, which since 1 July 2017 has been integrated into a new trade association, UK Finance.
COBS 22.1	Chapter 22.2 of the Conduct of Business Sourcebook in the FCA's Handbook.
Co-lead Managers	BNPP and NatWest Markets
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 IX: Conditions of Issue of the Core Capital Deferred Shares*".
Consolidated Historical Financial Statements	This consolidated financial statements incorporated by reference into this Prospectus, comprising the 2015 Financial Statement, the 2016 Financial Statements and the 2017 Financial Statements.
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 IX: Conditions of Issue of the Core Capital Deferred Shares*".
Core Capital Contribution Share	as defined in Condition 4.4(a) in "*Part IX: Conditions of Issue of the Core Capital Deferred Shares*".
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 the Capital Requirements Directive and the Capital Requirements Regulation.
CRE	commercial real estate.
CRR	the Capital Requirements 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 any reserves 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.
EBA	European Banking Authority.
EEA	the European Economic Area.
Euroclear	Euroclear Bank S.A./N.V.
Eurozone	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	Joe Garner, Mark Rennison, Chris Rhodes, Tony Prestedge.
Existing CCDS	the 5,500,000 Core Capital Deferred Shares issued by the Society on 6 December 2013.
FATCA	the US Foreign Account Tax Compliance Act.
FCA	the UK Financial Conduct Authority.
Fitch	Fitch Ratings Limited.
Financial Performance Framework	the framework that sets out the financial parameters that the Group calibrates future performance against to achieve the right balance between distributing value to members, investing in the business and maintaining its financial strength.
FLS	the BoE's Funding for Lending Scheme.

FOS	the UK Financial Ombudsman Service.
FPC	the Financial Policy Committee
FSCS	the Financial Services Compensation Scheme.
FSMA	the UK Financial Services and Markets Act 2000, as amended.
Funding for Lending	the BoE's Funding for Lending Scheme.
Further CCDS	the 5,000,000 Core Capital Deferred Shares to be issued by the Society on or around 14 September 2017 (which are to be consolidated and form a single series with the Existing CCDS upon issue).
GDPR	the General Data Protection Regulation (Regulation (EU) 2016/679 of the European Parliament and of the Council of 27 April 2016 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data).
Global CCDS Certificate	the global certificate representing all outstanding CCDS.
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.
Issue Price	£159.00 per CCDS, being the price at which each Further CCDS is to be issued. The Issue Price is quoted exclusive of any amount attributable to potential future Distributions and, in line with market convention for secondary market trading, the final price payable by investors will also include an amount attributable to potential future Distributions, being £2.408 (rounded to three decimal places) per CCDS. Accordingly, the aggregate price of Further CCDS purchased pursuant to the Offer shall be £161.408 (rounded to three decimal places) per CCDS (the **Purchase Price**). However, investors should note that the CCDS are common equity tier 1 instruments and the Society has full discretion whether or not to

	declare Distributions (in contrast to interest on a debt instrument, there is no accrual of Distributions on CCDS).
Joint Bookrunners	Barclays Bank PLC, Citigroup Global Markets Limited, J.P. Morgan Securities plc, Merrill Lynch International and UBS Limited.
J.P. Morgan	J.P. Morgan Securities plc, a company registered in England and Wales with company number 02711006 and authorised by the PRA and regulated by the PRA and the FCA.
LCR	liquidity coverage ratio.
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 business day	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.
London Stock Exchange	London Stock Exchange plc.
Memorandum	the memorandum of the Society.
MiFID	the Markets in Financial Instruments Directive (Directive 2004/39/EC of the European Parliament and of the Council of 21 April 2004 on markets in financial instruments the Markets in Financial Instruments Directive).
MiFID II	the revised Markets in Financial Instruments Directive (Directive 2014/65/EU of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments) (and references to MiFID II also include MiFIR where the context admits).
MiFIR	the Markets in Financial Instruments Regulation (Regulation (EU) No 600/2014 of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments).
Minimum Investment	the minimum investment in Further CCDS pursuant to the Offer, being 1,258 Further CCDS (reflecting a minimum total consideration of approximately £200,000 per investor at the Issue Price).
Minimum Transfer Amount	a set minimum transfer amount for CCDS prevailing from time to time (being, as at the date of this Prospectus, 250 CCDS).
Moody's	Moody's Investors Service Limited.
MREL	the minimum requirement for own funds and eligible liabilities under BRRD and the Banking Act.
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.
NatWest Markets	The Royal Bank of Scotland plc (trading as NatWest Markets), a company registered in Scotland with company number SC090312 and authorised and regulated by the FCA and the PRA.
NIM	net interest margin
Nominee	Citivic Nominees Limited, in whose name the Global CCDS Certificate is registered, as nominee for Euroclear and Clearstream, Luxembourg (and such term shall include any successor or replacement nominee).
Non-Executive Directors	David Roberts, Rita Clifton, Mitchel Lenson, Lynne Peacock, Mai Fyfield, Tim Tookey, Kevin Parry, Baroness Usha Prashar, Gunn Waersted.
NSFR	net stable funding ratio.
Offer	the offer of the Further CCDS 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 VII:* "*Details of the Offer*".
Official List	the Official List maintained by the FCA.
Open Banking	the collective term used to describe the combined impact of new regulations such as the Competition and Markets Authority and PSD2, where financial institutions such as Nationwide will provide registered third party organisations with transactional information where the consent of the customer or member is provided. The aim of Open Banking is to create more transparency and fairness in banking and financial services through greater competition and innovation.
Over-allotment Option	the option pursuant to which the Stabilisation Managers were entitled to 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 in "*Part VII: Details of the Offer*".
PDMR	person discharging managerial responsibilities within the meaning of section 96B(1) of the FSMA.
PFI	private finance initiative.
PIBS	Nationwide's permanent interest bearing shares.
PPI	payment protection insurance.
PRA	the BoE acting as Prudential Regulation Authority through its Prudential Regulation Committee.
Product Intervention Rules	the Product Intervention (Contingent Convertible Instruments and

	Mutual Society Shares) Instrument 2015 and related rules under it (including COBS 22.2).
Prospectus	this document.
Prospectus Directive	Directive 2003/71/EC, as amended 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.
PSD2	the revised Payment Services Directive (Directive (EU) 2015/2366 of the European Parliament and of the Council of 25 November 2015 on payment services in the internal market).
Purchase Price	See "*Issue Price*" above.
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.
RMBS	residential mortgage backed securities.
RSL	registered social landlord.
Rules	the Rules of the Society.
RWAs	risk weighted assets.
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.
SDLT	stamp duty land tax.
Securities Act	the US Securities Act of 1933, as amended.
SMEs	small and medium sized enterprises.
SMR	the Society's Standard Mortgage Rate.
SREP	the Supervisory Review and Evaluation Process.
SRR	the Special Resolution Regime under the Banking Act.
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.
Stabilisation Manager	J.P. Morgan.
Stockwood Finance	Stockwood Finance (Jersey) Limited, a wholly-owned subsidiary of the Society.
Subscriber	J.P. Morgan, as subscriber for the redeemable preference shares in Stockwood Finance.
Subscription and Transfer Agreement	The subscription and transfer agreement dated 11 September 2017 and entered into between the Society, Stockwood Finance and the Subscriber in relation to the subscription and transfer of redeemable preference shares in Stockwood Finance.
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).
TFS	The BoE's Term Funding Scheme.
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 April 2016 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 Banks on 11 September 2017 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.

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