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

NATIONWIDE BUILDING SOCIETY

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

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

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

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

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

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

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

See "*Risk Factors*" on page 24 for a discussion of certain factors to be considered in connection with an investment in the Covered Bonds.

This Base Prospectus (the **Base Prospectus**) constitutes a Base Prospectus for the purposes of Directive 2003/71/EC (the **Prospectus Directive**). Application has been made to the Financial Services Authority (the **FSA**) in its capacity as the United Kingdom competent authority under the Financial Services and Markets Act 2000 (the **FSMA 2000**) for the purposes of the Prospectus Directive and relevant implementing measures in the United Kingdom (the **UK Listing Authority**), for approval of this Base Prospectus as a base prospectus issued in compliance with the Prospectus Directive and relevant implementing measures in the United Kingdom for the purpose of giving information with regard to the issue of Covered Bonds issued under the Programme during the period of 12 months from the date of this Base Prospectus to be admitted to the official list of the UK Listing Authority (the **Official List**) and to the London Stock Exchange plc (the **London Stock Exchange**) for such Covered Bonds to be admitted to trading on the regulated market of the London Stock Exchange which is a **regulated market** for the purposes of Directive 2004/39/EC (the **Markets in Financial Instruments Directive**) (the **regulated market of the London Stock Exchange**). Admission to the Official List together with admission to the regulated market of the London Stock Exchange constitutes official listing on the London Stock Exchange. References in this Base Prospectus to Covered Bonds being **listed** (and all related references) shall mean that such Covered Bonds have been admitted to trading on the regulated market of the London Stock Exchange and have been admitted to the Official List. Notice of the aggregate nominal amount of Covered Bonds, interest (if any) payable in respect of Covered Bonds, the issue price of Covered Bonds and any other terms and conditions not contained herein which are applicable to each Tranche (as defined under "*Terms and Conditions of the Covered Bonds*") of Covered Bonds will be set out in a separate document containing the final terms for that Tranche (**Final Terms**) which, with respect to Covered Bonds to be admitted to the Official List and admitted to trading on the regulated market of the London Stock Exchange, will be delivered to the UK Listing Authority and the regulated market of the London Stock Exchange on or before the date of issue of such Tranche of Covered Bonds. This Base Prospectus is not a prospectus for the purposes of Section 12(a) (2) or any other provision or order under the US Securities Act of 1933, as amended (the **Securities Act**).

The Programme provides that Covered Bonds may be listed or admitted to trading, as the case may be, on such other or further stock exchange(s) or regulated or unregulated markets as may be agreed between the Issuer, the LLP, the Bond Trustee (as defined below) and the relevant Dealer(s). The Issuer may also issue unlisted Covered Bonds and/or Covered Bonds not admitted to trading on any regulated or unregulated market.

The Issuer has been admitted to the FSA's register of issuers and the Programme and all Covered Bonds previously issued under the Programme have been admitted to the register of Regulated Covered Bonds under the Regulated Covered Bonds Regulations 2008 (as amended) (SI 2008/346) (the **RCB Regulations**).

The Covered Bonds and the Covered Bond Guarantee (as defined below) have not been and will not be registered under the Securities Act, and may not be offered or sold in the United States or to or for the benefit of US persons unless such securities are registered under the Securities Act or pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. See "*Form of the Covered Bonds*" for a description of the manner in which Covered Bonds will be issued. Registered Covered Bonds are subject to certain restrictions on transfer, see "*Subscription and Sale and Transfer and Selling Restrictions*".

The Issuer and the LLP may agree with any Dealer and the Bond Trustee that Covered Bonds may be issued in a form not contemplated by the Terms and Conditions of the Covered Bonds herein, in which event (in the case of Covered Bonds admitted to the Official List only) a supplementary prospectus, if appropriate, will be made available which will describe the effect of the agreement reached in relation to such Covered Bonds.

The Covered Bonds issued under the Programme are expected on issue to be assigned an "AAA" rating by Standard & Poor's Rating Services, an "AAA" rating by Fitch Ratings Ltd. and an "Aaa" rating by Moody's Investors Service Limited. 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.

Arranger for the Programme

Barclays Capital

The date of this Base Prospectus is 1 July 2010

The Issuer and the LLP each accept responsibility for the information contained in this Base Prospectus. To the best of the knowledge and belief of each of the Issuer and the LLP (each having taken all reasonable care to ensure that such is the case) the information contained in this Base Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information. Any information sourced from third parties contained in this Base Prospectus has been accurately reproduced (and is clearly sourced where it appears in the document) and, as far as the Issuer and the LLP are aware and are able to ascertain from information published by that third party, no facts have been omitted which would render the reproduced information inaccurate or misleading.

The Issuer has been admitted to the FSA's register of issuers and the Programme and all Covered Bonds previously issued under the Programme have been admitted to the register of Regulated Covered Bonds under the RCB Regulations.

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

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

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

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

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

Neither the delivery of this Base Prospectus nor the offering, sale or delivery of any Covered Bonds shall in any circumstances imply that the information contained herein concerning the Issuer and/or the LLP and/or the Seller is correct at any time subsequent to the date hereof or that any other information supplied in connection with the Programme is correct as of any time subsequent to the date indicated in the document containing the same. The Dealers, the Bond Trustee and the Security Trustee expressly do not undertake to review the financial condition or affairs of the Issuer, the LLP or the Seller during the life of the Programme or to advise any investor in the Covered Bonds of any information coming to their attention. Investors should review, *inter alia*, the most recently published documents incorporated by reference into this Base Prospectus when deciding whether or not to purchase any Covered Bonds.

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

As set forth in the Final Terms, the Covered Bonds are being offered and sold (a) to "qualified institutional buyers" (as defined in Rule 144A) (**QIBs** in reliance on Rule 144A under the Securities Act (**Rule 144A**)), and/or (b) to institutional "accredited investors" as defined in Rule 501(a)(1), (2), (3) or (7) of Regulation D under the Securities Act (**Institutional Accredited Investors**, or **IAIs**) and/or (c) to non-US persons in offshore transactions in accordance with Regulation S under the Securities Act (**Regulation S**). Prospective purchasers are hereby notified that the sellers of the Covered Bonds may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A.

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

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

In connection with the issue of any Tranche of Covered Bonds, the Dealer or Dealers (if any) named as the stabilising manager(s) (or persons acting on behalf of any stabilising manager(s)) in the applicable Final Terms may over-allot Covered Bonds (provided that, in the case of any Tranche of Covered Bonds to be admitted to trading on the London Stock Exchange or any other regulated market (within the meaning of the Markets in Financial Instruments Directive (Directive 2004/39/EC)) in the European Economic Area, the

aggregate principal amount of Covered Bonds allotted does not exceed 105% of the aggregate principal amount of the relevant Tranche) or effect transactions with a view to supporting the market price of the Covered Bonds at a level higher than that which might otherwise prevail. However, there is no assurance that the stabilising manager(s) (or persons acting on behalf of a stabilising manager) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the final terms of the offer of the relevant Tranche of Covered Bonds is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the relevant Tranche of Covered Bonds and 60 days after the date of the allotment of the relevant Tranche of Covered Bonds. Any stabilisation action or over-allotment must be conducted by the relevant stabilising manager (or persons acting on behalf of any stabilising manager(s)) in accordance with all applicable laws and rules.

In making an investment decision, investors must rely on their own examination of the Issuer and the LLP and the terms of the Covered Bonds being offered, including the merits and risks involved. The Covered Bonds have not been approved or disapproved by the United States Securities and Exchange Commission or any other securities commission or other regulatory authority in the United States, nor have the foregoing authorities approved this Base Prospectus or confirmed the accuracy or determined the adequacy of the information contained in this Base Prospectus. Any representation to the contrary is unlawful.

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

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

US INFORMATION

This Base Prospectus is being provided on a confidential basis in the United States to a limited number of QIBs or IAIs in connection with the consideration of the purchase of the Covered Bonds being offered hereby. Its use for any other purpose in the United States is not authorised. It may not be copied or reproduced in whole or in part nor may it be distributed or any of its contents disclosed to anyone other than the prospective investors to whom it is originally submitted.

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

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

NOTICE TO NEW HAMPSHIRE RESIDENTS

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE OF NEW HAMPSHIRE THAT ANY DOCUMENT FILED UNDER CHAPTER 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

AVAILABLE INFORMATION

To permit compliance with Rule 144A in connection with any resales or other transfers of Covered Bonds that are "restricted securities" within the meaning of the Securities Act, the Issuer and the LLP have undertaken to furnish, upon the request of a holder of such Covered Bonds or any beneficial interest therein, to such holder or to a prospective purchaser designated by him, the information required to be delivered under Rule 144A(d)(4) under the Securities Act if, at the time of the request, the Issuer is neither a reporting company under Section 13 or 15(d) of the US Securities Exchange Act of 1934, as amended (the Exchange Act), nor exempt from reporting pursuant to Rule 12g3-2(b) thereunder.

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

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

FORWARD-LOOKING STATEMENTS

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

PRESENTATION OF FINANCIAL INFORMATION

The financial information incorporated by reference in this Base Prospectus as of and for the years ended 4 April 2008, 2009 and 2010, in respect of the Issuer, and for the years ended 4 April 2007, 2008 and 2009, in respect of the LLP, has been derived from our audited consolidated financial statements prepared in accordance with the International Financial Reporting Standards issued by the International Accounting Standards Board (**IASB**), as adopted by the European Commission (**IFRS**) for use in the European Union (collectively, the **IFRS Financial Statements**).

We have made rounding adjustments to reach some of the figures included in this Base Prospectus. Accordingly, numerical figures shown as totals in some tables may not be an arithmetic aggregation of the figures that preceded them.

Unless otherwise indicated, all references in this Base Prospectus to "pounds sterling", "sterling" and "£" are to the lawful currency of the United Kingdom and all references to "US dollars", "dollars" and "$" are to the lawful currency of the United States.

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

SERVICE OF PROCESS AND ENFORCEMENT OF CIVIL LIABILITIES

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

WHERE YOU CAN FIND MORE INFORMATION

The IFRS Financial Statements are incorporated by reference in this Base Prospectus. We will not distribute these financial statements to holders of the Covered Bonds, but we will make them available to these holders upon request. You should direct requests for copies of these financial statements to the Treasury Division, Nationwide Building Society, Kings Park Road, Moulton Park, Northampton, NN3 6NW, England.

As of the date of this Base Prospectus, we do not file reports or other information with the US Securities and Exchange Commission. To preserve the exemption for resales and other transfers under Rule 144A, we have agreed to furnish the information required pursuant to Rule 144A(d)(4) of the Securities Act if a holder of covered bonds, or a prospective purchaser specified by a holder of Covered Bonds, requests such information. We will continue to provide such information for so long as we are neither subject to the reporting requirements of Section 13 or 15(d) of the US Securities Exchange Act of 1934, as amended (the **Exchange Act**) nor exempt from such reporting requirements pursuant to Rule 12g3-2(b) of the Exchange Act.

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PRINCIPAL CHARACTERISTICS OF THE PROGRAMME

Issuer:	Nationwide Building Society
Guarantor:	Nationwide Covered Bonds LLP
Regulated Covered Bonds:	The Issuer and the Programme and all Covered Bonds previously issued under the Programme have been registered under the RCB Regulations
Nature of eligible property:	Residential mortgage loans, Substitution Assets up to the prescribed limit and Authorised Investments
Compliant with the Banking Consolidation Directive (Directive 2006/48/EC)[1]:	Yes
Location of eligible residential property underlying Loans:	England, Wales, Scotland or Northern Ireland
Maximum True Balance to Indexed Valuation ratio given credit under the Asset Coverage Test:	75%
Maximum Asset Percentage:	93%
Asset Coverage Test:	As set out on page 260
Amortisation Test:	As set out on page 263
Extended Maturities:	Available
Hard Bullet Maturities:	Available
Asset Monitor:	PricewaterhouseCoopers LLP
Asset Segregation:	Yes
Namensschuldverschreibungen option:	No

DOCUMENTS INCORPORATED BY REFERENCE

The auditors' reports and audited consolidated financial statements of the Issuer for the financial years ended 4 April 2010, 2009 and 2008 and of the LLP for the financial years ended 4 April 2009, 2008 and 2007, all of which have previously been published or are published simultaneously with this Base Prospectus and have been submitted to and filed with the Financial Services Authority shall be deemed to be incorporated in, and to form part of, this Base Prospectus, save that any statement contained herein or in a document which is incorporated by reference herein shall be deemed to be modified or superseded for the purpose of this Base Prospectus to the extent that a statement contained in any document which is subsequently incorporated by reference herein by way of a supplement prepared in accordance with Article 16 of the Prospectus Directive modifies or supersedes such earlier statement (whether expressly, by implication or otherwise). Any statement so modified or superseded shall not, except as so modified or superseded, constitute a part of this Base Prospectus. Documents which are referred to or incorporated by reference into the documents listed above do not form part of this Base Prospectus.

The Issuer and the LLP will provide, without charge, to each person to whom a copy of this Base Prospectus has been delivered, upon the request of such person, a copy of any or all of the documents deemed to be incorporated herein by reference unless such documents have been modified or superseded as specified above. Written requests for such documents should be directed either to the Issuer, King's Park Road, Moulton Park, Northampton, NN3 6NW and marked for the attention of Treasury or (as applicable) the LLP, at its office set out at the end of this Base Prospectus.

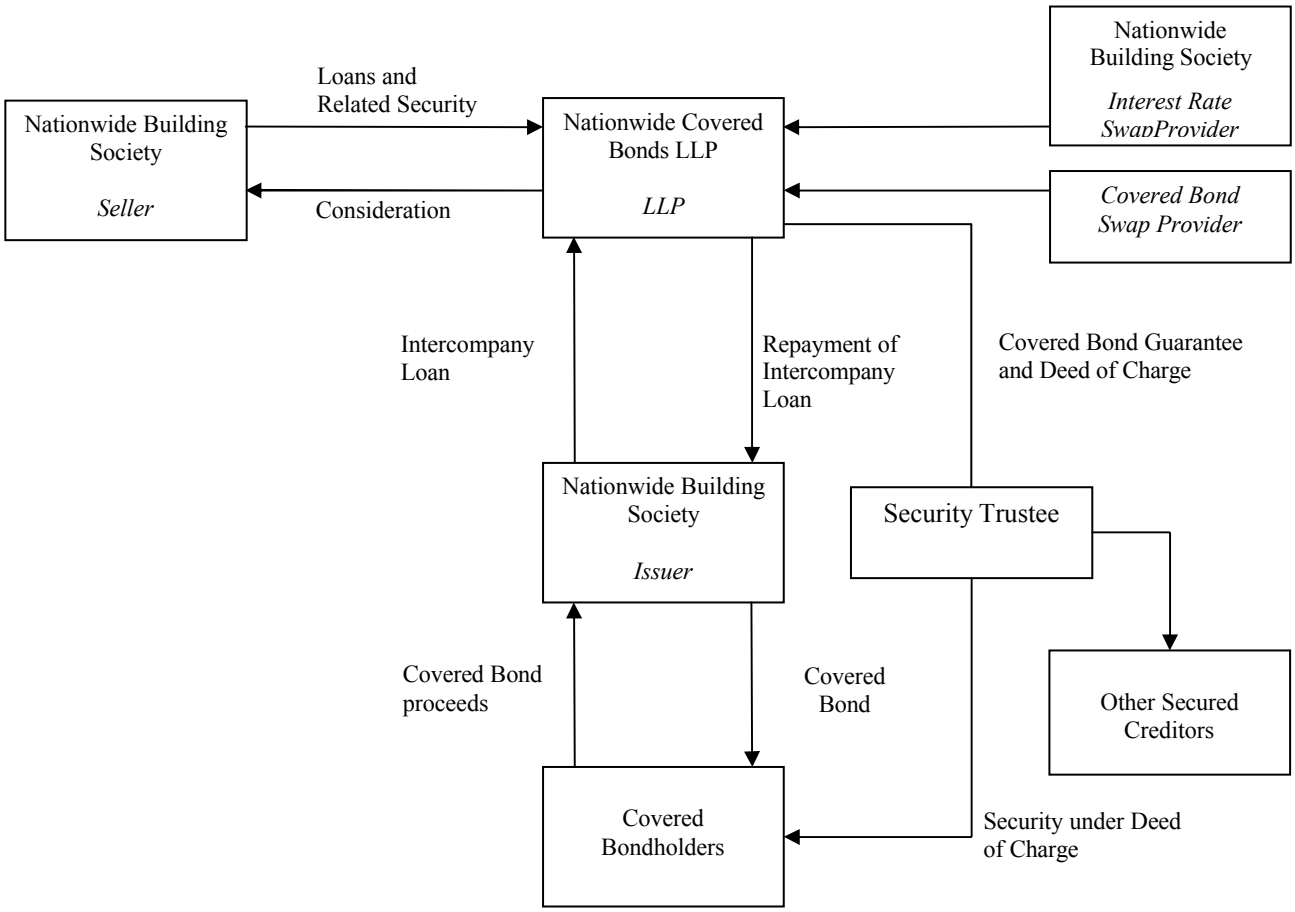
The Issuer and the LLP have each undertaken to the Dealers in the Programme Agreement to comply with section 87G of the FSMA 2000. In the event that a supplementary prospectus is produced pursuant to such undertaking, a copy of such supplementary prospectus will accompany this Base Prospectus.

If the terms of the Programme are modified or amended in a manner which would make this Base Prospectus, as so modified or amended, inaccurate or misleading, a supplement to this Base Prospectus or a new base prospectus will be prepared for use in connection with any subsequent issue of Covered Bonds.

STRUCTURE OVERVIEW

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

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



Structure Overview

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

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

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

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

- *The proceeds of Term Advances*: The LLP will use the proceeds of the Term Advances received under the Intercompany Loan Agreement from time to time (if not denominated in Sterling, after swapping the same into Sterling under the relevant Covered Bond Swap Agreement): (a) to purchase Loans and their Related Security, from the Seller in accordance with the terms of the Mortgage Sale Agreement and/or (b) to invest in Substitution Assets in an amount not exceeding the prescribed limit to the extent required to meet the requirements of Regulations 17(2)(b) and 24(1)(a)(ii) of the RCB Regulations and the Asset Coverage Test and thereafter such proceeds may be applied by the LLP: (a) to purchase Loans and their Related Security, from the Seller in accordance with the terms of the Mortgage Sale Agreement; and/or (b) to invest in Substitution Assets in an amount not exceeding the prescribed limit; and/or (c) (subject to complying with the Asset Coverage Test (as described below)) to make a Capital Distribution to a Member; and/or (d) if an existing Series or Tranche, or part of an existing Series or Tranche, of Covered Bonds is being refinanced (by the issue of a further Series or Tranche of Covered Bonds), to repay the Term Advance(s) corresponding to the Covered Bonds being so refinanced; and/or (e) to make a deposit of all or part of the proceeds in the GIC Account (including, without limitation, to fund the Reserve Fund to an amount not exceeding the prescribed limit). To protect the value of the Portfolio under the terms of the LLP Deed, the LLP and the Members (other than the Liquidation Member) will be obliged to ensure that the Asset Coverage Test (as described below) will be satisfied on each Calculation Date.

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

Balance of the Loans sold by the Seller as at the relevant Transfer Date and the cash payment (if any) paid by the LLP) and (c) Deferred Consideration.

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

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

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

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

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

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

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

Following service on the LLP of a Notice to Pay (but prior to an LLP Event of Default and service of an LLP Acceleration Notice on the LLP and/or the realisation of the Security and/or the commencement of winding-up proceedings against the LLP) the LLP will use all moneys (other than Third Party Amounts and Swap Collateral) to pay Guaranteed Amounts in respect of the Covered Bonds when the same shall become Due for Payment subject to paying certain higher ranking

obligations of the LLP in the Guarantee Priority of Payments. In such circumstances, the Members of the LLP, including the Seller, will only be entitled to receive any remaining income of the LLP after all amounts due under the Covered Bond Guarantee in respect of the Covered Bonds have been paid in full or have otherwise been provided for.

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

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

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

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

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

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

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

- *Amortisation Test*: In addition, following service of a Notice to Pay on the LLP (but prior to service of an LLP Acceleration Notice and/or the commencement of winding-up proceedings against the LLP and/or realisation of the Security) and, for so long as Covered Bonds remain outstanding, the LLP and the Members (other than the Liquidation Member) must ensure that on each Calculation Date following an Issuer Event of Default, the Amortisation Test Aggregate Loan Amount will be in an amount at least equal to the aggregate Principal Amount Outstanding of the Covered Bonds from

time to time. The Amortisation Test will be tested by the Cash Manager on each Calculation Date following an Issuer Event of Default and service of a Notice to Pay on the LLP. A breach of the Amortisation Test will constitute an LLP Event of Default, which will entitle the Bond Trustee to serve an LLP Acceleration Notice declaring the Covered Bonds immediately due and repayable and entitling the Security Trustee to enforce the Security over the Charged Property.

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

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

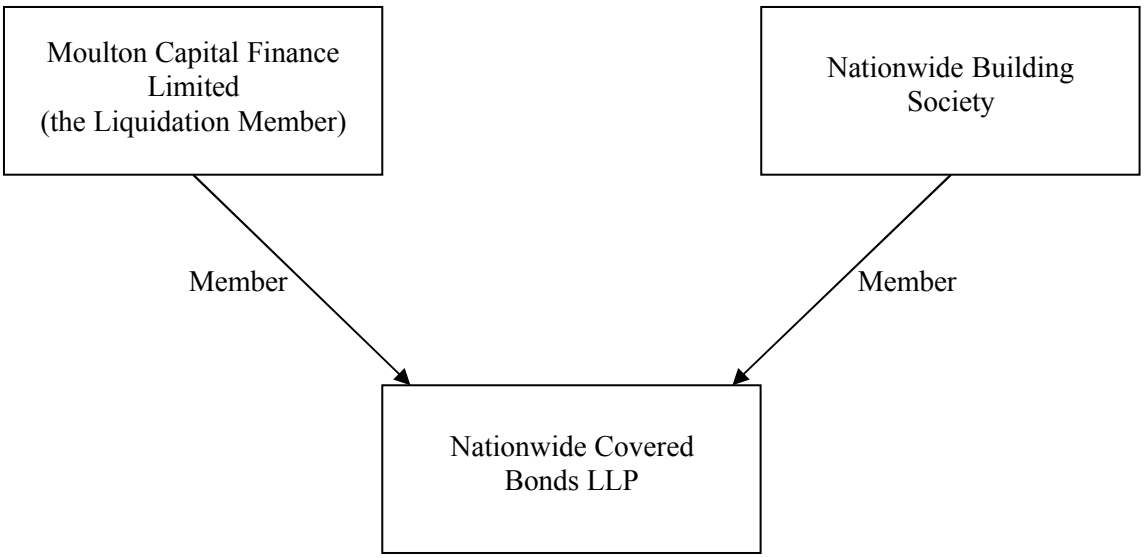
- *Further Information*: For a more detailed description of the transactions summarised above relating to the Covered Bonds see, amongst other relevant sections of this Base Prospectus, "*Overview of the Programme*", "*Terms and Conditions of the Covered Bonds*", "*Summary of the Principal Documents*",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

Ownership Structure of Nationwide Covered Bonds LLP

- As at the date of this Base Prospectus the Members of the LLP are the Seller and the Liquidation Member.

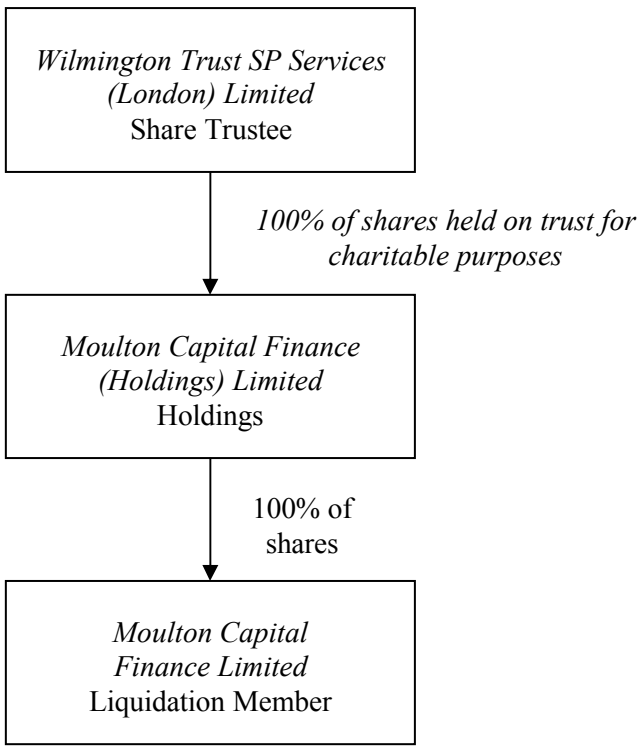
- A New Member may be admitted to the LLP, subject to meeting certain conditions precedent including, but not limited to, written confirmation from the Rating Agencies that this would not adversely affect the then current ratings of all outstanding Covered Bonds.

- Other than in respect of those decisions reserved to the Members, the LLP Management Committee (comprised of, as at the date of this Base Prospectus, directors and/or employees of the Seller and the representatives of the Liquidation Member) will manage and conduct the business of the LLP and will have all the rights, power and authority to act at all times for and on behalf of the LLP.



Ownership Structure of the Liquidation Member

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



OVERVIEW OF THE PROGRAMME

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

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

	pursuant to the terms of the Cash Management Agreement.
Principal Paying Agent and Agent Bank:	Citibank, N.A., London Branch, acting through its offices at 21st floor, Citigroup Centre, Canada Square, Canary Wharf, London E14 5LB has been appointed pursuant to the Agency Agreement as issuing and Principal Paying Agent and Agent Bank.
Exchange Agent and Transfer Agent:	Citibank, N.A., London Branch, acting through its offices at 21st floor, Citigroup Centre, Canada Square, Canary Wharf, London E14 5LB has been appointed pursuant to the Agency Agreement as Exchange Agent and Transfer Agent.
Bond Trustee:	Citicorp Trustee Company Limited, whose registered office is at Citigroup Centre, Canada Square, Canary Wharf, London E14 5LB has been appointed to act as Bond Trustee on behalf of the holders of the Covered Bonds in respect of the Covered Bonds and holds the benefit of, *inter alia*, the Covered Bond Guarantee on behalf of the holders of the Covered Bonds pursuant to the terms of the Trust Deed.
Registrar:	Citibank, N.A., London Branch, acting through its offices at 21st floor, Citigroup Centre, Canada Square, Canary Wharf, London E14 5LB has been appointed pursuant to the Agency Agreement as Registrar.
Security Trustee:	Citicorp Trustee Company Limited whose registered office is at Citigroup Centre, Canada Square, Canary Wharf, London E14 5LB has been appointed to act as Security Trustee to hold the benefit of the security granted by the LLP to the Security Trustee (for itself, the holders of the Covered Bonds and other Secured Creditors) under the Deed of Charge.
Asset Monitor:	A reputable institution acceptable to the Rating Agencies appointed pursuant to the Asset Monitor Agreement as an independent monitor to perform tests in respect of the Asset Coverage Test and the Amortisation Test when required.
Covered Bond Swap Providers:	Each swap provider which agrees to act as Covered Bond Swap Provider to the LLP to hedge certain interest rate, currency and/or other risks in respect of amounts received by the LLP under the Loans and the Interest Rate Swap and amounts payable by the LLP under the Intercompany Loan Agreement (prior to the service of a Notice to Pay) and under the Covered Bond Guarantee in respect of the Covered Bonds (after service of a Notice to Pay) by entering into the Covered Bond Swaps with the LLP and the Security Trustee under the Covered Bond Swap Agreements. In the event that the ratings of a Covered Bond Swap Provider fall below a specified ratings level, the relevant Covered Bond Swap Provider will be required to post collateral, obtain a guarantee of its obligations from an appropriately rated guarantor or put in place some other arrangement in order to maintain the then current ratings of the Covered Bonds.

Interest Rate Swap Provider:	Nationwide (in its capacity as the Interest Rate Swap Provider) has agreed to act as a swap provider to the LLP to hedge possible variances between the rates of interest payable on the Loans sold by the Seller to the LLP and LIBOR for three month or one month Sterling deposits (payable by the LLP under the Covered Bond Swap Agreement) by entering into the Interest Rate Swaps with the LLP and the Security Trustee under the Interest Rate Swap Agreement. The Interest Rate Swap Provider will be required to post collateral, obtain a guarantee of its obligations or put in place some other arrangement in the event that its ratings fall below a specified ratings level. For a more detailed description of the Interest Rate Swap Provider, see "*The Issuer*", below.
GIC Provider:	Nationwide has been appointed as the GIC Provider to the LLP pursuant to the terms of the Guaranteed Investment Contract.
Account Bank:	Nationwide has been appointed as the Account Bank to the LLP pursuant to the terms of the Bank Account Agreement.
Stand-by GIC Provider:	Citibank, N.A., London Branch acting through its office at 21st floor, Citigroup Centre, Canada Square, Canary Wharf, London E14 5LB has agreed to act as Stand-by GIC Provider to the LLP pursuant to the terms of the Stand-by Guaranteed Investment Contract.
Stand-by Account Bank:	Citibank, N.A., London Branch acting through its office at 21st floor, Citigroup Centre, Canada Square, Canary Wharf, London E14 5LB has agreed to act as Stand-by Account Bank to the LLP pursuant to the terms of the Stand-by Bank Account Agreement.
Liquidation Member:	Moulton Capital Finance Limited, a special purpose vehicle incorporated in England and Wales as a private limited company (registered no. 5372384). The Liquidation Member is 100% owned by Holdings.
Holdings:	Moulton Capital Finance (Holdings) Limited, a special purpose vehicle incorporated in England and Wales as a private limited company (registered no. 5372200). All of the shares of Holdings are held on behalf of the Share Trustee on trust for general charitable purposes.
Share Trustee:	Wilmington Trust SP Services (London) Limited, having its registered office at Fifth Floor, 6 Broad Street Place, London EC2M 7JH.
Corporate Services Providers:	Wilmington Trust SP Services (London) Limited, having its registered office at Fifth Floor, 6 Broad Street Place, London EC2M 7JH, has been appointed to provide certain corporate services to the Liquidation Member and Holdings, pursuant to the Corporate Services Agreement.
Description:	Global Covered Bond Programme.

Arranger:	Barclays Capital, the investment banking division of Barclays Bank PLC.
Dealers:	Barclays Bank PLC, Deutsche Bank Aktiengesellschaft, Citigroup Global Markets Limited, Morgan Stanley & Co. International plc, J.P. Morgan Securities Ltd., HSBC Bank plc, UBS Limited and any other Dealers appointed from time to time in accordance with the Programme Agreement.
Certain Restrictions:	Each issue of Covered Bonds denominated in a currency in respect of which particular laws, guidelines, regulations, restrictions or reporting requirements apply will only be issued in circumstances which comply with such laws, guidelines, regulations, restrictions or reporting requirements from time to time (see "*Subscription and Sale and Transfer and Selling Restrictions*").
Programme Size:	Up to €45 billion (or its equivalent in other currencies determined as described in the Programme Agreement) outstanding at any time as described herein. The Issuer may increase the amount of the Programme in accordance with the terms of the Programme Agreement.
Distribution:	Covered Bonds may be distributed by way of private or public placement and in each case on a syndicated or non-syndicated basis, subject to the restrictions set forth in "*Subscription and Sale and Transfer and Selling Restrictions*" below.
Specified Currencies:	Subject to any applicable legal or regulatory restrictions, such currency or currencies as may be agreed from time to time by the Issuer, the relevant Dealer(s), the Principal Paying Agent and the Bond Trustee (as set out in the applicable Final Terms).
Denomination of Covered Bonds:	Covered Bonds will be issued in such denominations as may be agreed between the Issuer and the relevant Dealer(s) and as indicated in the applicable Final Terms save that except in the case of Covered Bonds which are intended to be admitted to trading on a regulated market of a European Economic Area stock exchange or offered to the public in a Member State of the European Economic Area in circumstances which would otherwise require the publication of a prospectus under the Prospectus Directive, the minimum denomination of each such Covered Bond will be at least €50,000 (or, if the Covered Bonds are denominated in a currency other than euro, at least the equivalent amount in such currency) or such other higher amount as may be required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the relevant Specified Currency. Unless otherwise stated in the applicable Final Terms, the minimum denomination of each Definitive IAI Registered Covered Bond will be US$ 500,000 or its approximate equivalent in other Specified Currencies and the minimum denomination of each Definitive Rule 144A Covered Bond will be US$ 100,000 or its approximate equivalent in other Specified Currencies.

Redenomination: The applicable Final Terms may provide that certain Covered Bonds may be redenominated in euro. If so, the redenomination provisions will be set out in the applicable Final Terms.

Maturities: Such maturities as may be agreed between the Issuer and the relevant Dealer(s) and as indicated in the applicable Final Terms, subject to such minimum or maximum maturities as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the Issuer or the relevant Specified Currency.

Issue Price: Covered Bonds may be issued at par or at a premium or discount to par on a fully-paid basis or partly paid basis.

Form of Covered Bonds: The Covered Bonds will be issued in bearer or registered form as described in "*Form of the Covered Bonds*". Registered Covered Bonds will not be exchangeable for Bearer Covered Bonds and *vice versa*.

Fixed Rate Covered Bonds: Fixed Rate Covered Bonds will bear interest at a fixed rate which will be payable on such date or dates as may be agreed between the Issuer and the relevant Dealer(s) and on redemption and will be calculated on the basis of such Day Count Fraction as may be agreed between the Issuer and the relevant Dealer(s) (as set out in the applicable Final Terms).

Floating Rate Covered Bonds: Floating Rate Covered Bonds will bear interest at a rate determined;

(b) on the same basis as the floating rate under a notional interest rate swap transaction in the relevant Specified Currency governed by an agreement incorporating the ISDA Definitions; or

(c) on the basis of a reference rate appearing on the agreed screen page of a commercial quotation service; or

(d) on such other basis as may be agreed between the Issuer and the relevant Dealer(s),

as set out in the applicable Final Terms.

The Margin (if any) relating to such floating rate will be agreed between the Issuer and the relevant Dealer(s) for each issue of Floating Rate Covered Bonds as set out in the applicable Final Terms.

Index Linked Covered Bonds: Payments of principal in respect of Index Linked Redemption Covered Bonds or of interest in respect of Index Linked Interest Covered Bonds will be calculated by reference to such index and/or formula or to changes in the prices of securities or commodities or to such other factors as the Issuer and the relevant Dealer(s) may agree (as set out in the applicable Final Terms).

Credit Linked Covered Bonds and Equity Linked Covered Bonds:	Payments of interest in respect of Credit Linked Covered Bonds and Equity Linked Covered Bonds will be calculated by reference to the price, value, performance or some other factor relating to one or more reference assets and/or the creditworthiness of, performance of obligations by, or some other factor relating to one or more reference entities (as set out in the applicable Final Terms).
Other provisions in relation to Floating Rate Covered Bonds and Index Linked Interest Covered Bonds:	Floating Rate and Index Linked Interest Covered Bonds may also have a maximum interest rate, a minimum interest rate or both (as indicated in the applicable Final Terms). Interest on Floating Rate Covered Bonds and Index Linked Interest Covered Bonds in respect of each Interest Period, as agreed prior to issue by the Issuer and the relevant Dealer(s), will be payable on such Interest Payment Dates, and will be calculated on the basis of such Day Count Fraction, as may be agreed between the Issuer and the relevant Dealer(s).
Dual Currency Covered Bonds:	Payments (whether in respect of principal or interest and whether at maturity or otherwise) in respect of Dual Currency Covered Bonds will be made in such currencies, and based on such rates of exchange, as the Issuer and the relevant Dealer(s) may agree (as set out in the applicable Final Terms).
Zero Coupon Covered Bonds:	Zero Coupon Covered Bonds may be offered and sold at a discount to their nominal amount and will not bear interest except in the case of late payment unless otherwise specified in the applicable Final Terms.
Partly Paid Covered Bonds:	Covered Bonds may be issued on a partly paid basis in which case interest will accrue on the paid-up amount of such Covered Bonds or on such other basis as may be agreed between the Issuer and the relevant Dealer(s) (as set out in the applicable Final Terms).
Rating Agency Confirmation:	The issuance of certain types of Covered Bonds (namely, Zero Coupon Covered Bonds, Index Linked Covered Bonds, Dual Currency Covered Bonds, Credit Linked Covered Bonds, Equity Linked Covered Bonds, Partly Paid Covered Bonds and Instalment Covered Bonds, in each case as specified in the relevant Final Terms) shall be subject to confirmation by the Rating Agencies that the then current ratings for any outstanding Covered Bonds will not be adversely affected by the issuance of such types of Covered Bonds.
Redemption:	The applicable Final Terms relating to each Tranche of Covered Bonds will indicate either that the relevant Covered Bonds of such Tranche cannot be redeemed prior their stated maturity (other than in specified instalments, if applicable, or for taxation reasons or if it becomes unlawful for any Term Advance to remain outstanding or following an Issuer Event of Default or an LLP Event of Default) or that such Covered Bonds will be redeemable at the option of the Issuer upon giving notice to the holders of the Covered Bonds, on a date or dates specified prior to such stated maturity and at a price or prices and on such other terms as may be agreed between the Issuer and the relevant Dealer(s) (as set out in the applicable Final Terms).

The applicable Final Terms may provide that Covered Bonds may be redeemable in two or more instalments of such amounts and on such dates as are indicated in the applicable Final Terms.

Hard Bullet Covered Bonds:

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

(a) any Revenue Receipts and Principal Receipts standing to the credit of the GIC Account on the date of such breach shall be credited to the Pre-Maturity Liquidity Ledger up to an amount not exceeding the Required Redemption Amount for each Series of Hard Bullet Covered Bonds in respect of which the Pre-Maturity Test has been breached; and

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

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

Extendable obligations under the Covered Bond Guarantee:

The applicable Final Terms may also provide that the LLP's obligations under the Covered Bond Guarantee to pay the Guaranteed Amounts corresponding to the Final Redemption Amount of the applicable Series of Covered Bonds on their Final Maturity Date (subject to applicable grace periods) may be deferred until the Extended Due for Payment Date. In such case, such deferral will occur automatically if the Issuer fails to pay the Final Redemption Amount of the relevant Series of Covered Bonds on their Final Maturity Date (subject to applicable grace periods) and if the Guaranteed Amounts equal to the Final Redemption Amount in respect of such Series of Covered Bonds are not paid in full by the LLP by the Extension Determination Date (for example, because the LLP has insufficient moneys to pay in full the Guaranteed Amounts corresponding to the Final Redemption Amount in respect of the

	relevant Series of Covered Bonds after payment of higher ranking amounts and taking into account amounts ranking *pari passu* in the Guarantee Priority of Payments). To the extent that the LLP has received a Notice to Pay in sufficient time and has sufficient moneys to pay in part the Final Redemption Amount, such partial payment shall be made by the LLP on any Interest Payment Date up to and including the relevant Extended Due for Payment Date as described in Condition 6.1 (Final redemption). Interest will continue to accrue and be payable on the unpaid amount up to the Extended Due for Payment Date in accordance with Condition 4 (Interest) and the LLP will make payments of Guaranteed Amounts constituting Scheduled Interest on each relevant Due for Payment Date and Extended Due for Payment Date.
Taxation:	All payments in respect of the Covered Bonds will be made without deduction or withholding for or on account of United Kingdom taxes, subject as provided in Condition 7 (Taxation). If any such deduction or withholding is made the Issuer will, save in the limited circumstances provided in Condition 7 (Taxation), be required to pay additional amounts in respect of the amounts so deducted or withheld. Under the Covered Bond Guarantee, the LLP will not be liable to pay any such additional amounts payable by the Issuer under Condition 7 (Taxation).
Cross Default:	If an LLP Acceleration Notice is served in respect of any one Series of Covered Bonds, then the obligation of the LLP to pay Guaranteed Amounts in respect of all Series of Covered Bonds outstanding will be accelerated.
Status of the Covered Bonds:	The Covered Bonds issued from time to time in accordance with the Programme will constitute direct, unconditional, unsubordinated and unsecured obligations of the Issuer and will rank *pari passu* without any preference among themselves and (save for any applicable statutory provisions) at least equally with all other present and future unsecured and unsubordinated obligations of the Issuer, from time to time outstanding.
Covered Bond Guarantee:	Payment of Guaranteed Amounts in respect of the Covered Bonds when Due for Payment will be irrevocably guaranteed by the LLP. The obligations of the LLP to make payment in respect of the Guaranteed Amounts when Due for Payment are subject to the condition that an Issuer Event of Default occurs, an Issuer Acceleration Notice is served on the Issuer and a Notice to Pay is served on the LLP or, if earlier, an LLP Event of Default occurs and an LLP Acceleration Notice is served on the LLP. The obligations of the LLP under the Covered Bond Guarantee will accelerate against the LLP upon the service of an LLP Acceleration Notice. The obligations of the LLP under the Covered Bond Guarantee constitute direct obligations of the LLP secured against the assets from time to time of the LLP and recourse against the LLP is limited to such assets.
Ratings:	Covered Bonds to be issued under the Programme have, unless otherwise specified in the applicable Final Terms, been rated "AAA"

	by S&P, "Aaa" by Moody's and "AAA" by Fitch.
Listing and admission to trading:	Application has been made to admit the Covered Bonds issued under the Programme to the Official List and to trading on the regulated market of the London Stock Exchange. Covered Bonds may be unlisted or may be listed on such other or further stock exchanges or regulated or unregulated markets, as may be agreed between the Issuer, the LLP, the Bond Trustee and the relevant Dealer(s) in relation to each issue. The Final Terms relating to each Tranche of the Covered Bonds will state whether or not the Covered Bonds are to be listed and/or admitted to trading and, if so, on which stock exchange(s) and/or markets.
The Regulated Covered Bonds Regulations 2008:	The Issuer has been admitted to the FSA's register of issuers and the Programme and all Covered Bonds previously issued under the Programme have been admitted to the register of Regulated Covered Bonds under the RCB Regulations.
Governing Law:	The Covered Bonds will be governed by, and construed in accordance with, English law.
Selling Restrictions:	There are restrictions on the offer, sale and transfer of any Tranche of Covered Bonds in the United States, the United Kingdom, Japan and the Republic of Italy. Other restrictions may apply in connection with the offering and sale of a particular Tranche of Covered Bonds. See "*Subscription and Sale and Transfer and Selling Restrictions*".
Risk Factors:	There are certain risks related to any issue of Covered Bonds under the Programme, which investors should ensure they fully understand. A non-exhaustive overview of certain of such risks is set out under "*Risk Factors*" from page 25 of this Base Prospectus.

RISK FACTORS

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

The Issuer and the LLP believe that the factors described below represent all the material and principal risks inherent in investing in the Covered Bonds issued under the Programme, but the inability of the Issuer or the LLP to pay interest, principal or other amounts on or in connection with any Covered Bonds may occur for other reasons, and the Issuer and the LLP do not represent that the statements below regarding the risks of holding any Covered Bonds are exhaustive. Prospective investors should also read the detailed information set out elsewhere in this Base Prospectus and reach their own views prior to making any investment decision.

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

General Risk Factors

Issuer liable to make payments when due on the Covered Bonds

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

The LLP has no obligation to pay the Guaranteed Amounts payable under the Covered Bond Guarantee until the occurrence of an Issuer Event of Default, service by the Bond Trustee on the Issuer of an Issuer Acceleration Notice and on the LLP of a Notice to Pay or, if earlier, following the occurrence of an LLP Event of Default, service by the Bond Trustee of an LLP Acceleration Notice. The occurrence of an Issuer Event of Default does not constitute an LLP Event of Default. However, failure by the LLP to pay amounts when Due for Payment under the Covered Bond Guarantee would constitute an LLP Event of Default which would entitle the Bond Trustee to accelerate the obligations of the Issuer under the Covered Bonds (if they have not already become due and payable) and the obligations of the LLP under the Covered Bond Guarantee and the Security Trustee to enforce the Security.

Obligations under the Covered Bonds

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

Covered Bonds issued under the Programme

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

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

- the Issuer will be obliged to apply the proceeds of any issue of Covered Bonds to make a Term Advance to the LLP. The LLP will use the proceeds of such Term Advance (after swapping the same into Sterling if necessary) (a) to acquire Loans and their Related Security from the Seller and/or (b) to acquire Substitution Assets up to the prescribed limit to the extent required to meet the requirements of Regulations 17(2)(b) and 24(1)(a)(ii) of the RCB Regulations and the Asset Coverage Test and thereafter such proceeds may be applied by the LLP:

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

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

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

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

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

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

- on or prior to the date of issue of any further Covered Bonds, the Issuer will be obliged to obtain written confirmation from the Rating Agencies (addressed to the Issuer, the Bond Trustee and the Security Trustee) that such further issue would not adversely affect the then current ratings of the existing Covered Bonds.

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

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

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

Extendable obligations under the Covered Bond Guarantee

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

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

Absence of secondary market

There is not, at present, an active and liquid secondary market for the Covered Bonds, and no assurance is provided that a secondary market for the Covered Bonds will develop. The Covered Bonds have not been, and will not be, registered under the Securities Act or any other applicable securities laws and are subject to certain restrictions on the resale and other transfer thereof as set forth under "*Subscription and Sale and Transfer and Selling Restrictions*". To the extent a secondary market develops, it may not continue for the life of the Covered Bonds or it may not provide holders of the Covered Bonds with liquidity of investment with the result that a holder of the Covered Bonds may not be able to find a buyer to buy its Covered Bonds readily or at prices that will enable the holder of the Covered Bonds to realise a desired yield. Consequently, a Covered Bondholder must be able to bear the economic risk of an investment in a Covered Bond for an indefinite period of time.

Liquidity in the secondary market may adversely affect the market value of the Covered Bonds

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

and those securities that have been structured to meet the requirements of limited categories of investors. Consequently, whilst these market conditions continue to persist, an investor in Covered Bonds may not be able to sell or acquire credit protection on its Covered Bonds readily and market values of Covered Bonds are likely to fluctuate. Any of these fluctuations may be significant and could result in significant losses to Covered Bondholders.

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

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

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

Any downgrade of the UK sovereign credit rating or the perception that such a downgrade may occur may severely destabilise the markets and have a material adverse effect on the Issuer's operating results, financial condition, prospects as well as on the marketability of the Covered Bonds. This might also impact on the Issuer's credit ratings, borrowing costs and ability to fund itself. A UK sovereign downgrade or the perception that such a downgrade may occur would be likely to have a material effect in depressing consumer confidence, restricting the availability, and increasing the cost of funding for individuals and companies, further depressing economic activity, increasing unemployment, reducing asset prices and consequently increasing the risk of a "double dip" recession. These risks are exacerbated by concerns over the levels of the public debt of, and the weakness of the economies in, Italy, the Republic of Ireland, Greece, Portugal, and Spain. Further instability within these countries or others within the Eurozone might lead to contagion.

Ratings of the Covered Bonds

The ratings assigned to the Covered Bonds address:

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

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

The expected ratings of the Covered Bonds are set out in the relevant Final Terms for each Series of Covered Bonds. Any Rating Agency may lower its rating or withdraw its rating if, in the sole judgment of the Rating Agency, the credit quality of the Covered Bonds has declined or is in question. In this regard, we note that each of S&P and Fitch has recently made changes to its covered bond rating methodology. If any rating assigned to the Covered Bonds is lowered or withdrawn, the market value of the Covered Bonds may be reduced.

In addition, at any time, any Rating Agency may revise its relevant rating methodology with the result that, amongst other things, any rating assigned to the Covered Bonds may be lowered.

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

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

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

- have sufficient knowledge and experience to make a meaningful evaluation of the relevant Covered Bonds, the merits and risks of investing in the relevant Covered Bonds and the information contained or incorporated by reference in this Base Prospectus or any applicable supplement;

- have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the relevant Covered Bonds and the impact such investment will have on its overall investment portfolio;

- have sufficient financial resources and liquidity to bear all of the risks of an investment in the Covered Bonds, including Covered Bonds with principal or interest payable in one or more currencies, or where the currency for principal or interest payments is different from the currency in which such investor's financial activities are principally denominated;

- understand thoroughly the terms of the relevant Covered Bonds and be familiar with the behaviour of any relevant indices and financial markets; and

- be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

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

Covered Bonds not in physical form

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

- result in payment delays on the Covered Bonds because distributions on the Covered Bonds will be sent by or on behalf of the Issuer to Euroclear, Clearstream, Luxembourg or DTC instead of directly to Covered Bondholders;

- make it difficult for Covered Bondholders to pledge the Covered Bonds as security if Covered Bonds in physical form are required or necessary for such purposes; and

- hinder the ability of Covered Bondholders to resell the Covered Bonds because some investors may be unwilling to buy Covered Bonds that are not in physical form.

Covered Bonds subject to optional redemption by the Issuer

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

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

Risks relating to certain types of Covered Bonds

The Issuer may issue Covered Bonds with principal or interest determined by reference to an index or formula, to changes in the prices of securities or commodities, to movements in currency exchange rates or other factors (each, a **Relevant Factor**). In addition, the Issuer may issue Covered Bonds with principal or interest payable in one or more currencies which may be different from the currency in which the Covered Bonds are denominated. Potential investors should be aware that:

(a) the market price of such Covered Bonds may be volatile;

(b) they may receive no interest;

(c) payment of principal or interest may occur at a different time or in a different currency from that expected;

(d) they may lose all or a substantial portion of their principal;

(e) a Relevant Factor may be subject to significant fluctuations that may not correlate with changes in interest rates, currencies or other indices;

(f) if a Relevant Factor is applied to Covered Bonds in conjunction with a multiplier greater than one or contains some other leverage factor, the effect of changes in the Relevant Factor on principal or interest payable is likely to be magnified; and

(g) the timing of changes in a Relevant Factor may affect the actual yield to investors, even if the average performance is consistent with their expectations. In general, the earlier the change in the Relevant Factor, the greater the effect on yield.

The historical performance of an index should not be viewed as an indication of the future performance of such index during the term of any Index Linked Covered Bonds. Accordingly, an investor should consult its own financial, tax and legal advisers about the risk entailed by an investment in any Index Linked Covered Bonds and the suitability of such Covered Bonds in light of their particular circumstances.

Exchange rate risks and exchange controls

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

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

Interest Rate Risk Relating to Fixed Rate Covered Bonds

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

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

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

Legal investment considerations may restrict certain investments

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

Covered Bonds where denominations involve integral multiples: definitive Covered Bonds

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

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

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

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

- provided that (a) the Bond Trustee is of the opinion that such modification, waiver or authorisation will not be materially prejudicial to the interest of any of the holders of the Covered Bonds, and (b) the Security Trustee is of the opinion that such modification, waiver or authorisation is not materially prejudicial to the interests of any of the holders of the Covered Bonds; or

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

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

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

  (b) that either:

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

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

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

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

European Monetary Union

If the United Kingdom joins the European Monetary Union prior to the maturity of the Covered Bonds, there is no assurance that this would not adversely affect the realisable value of the Portfolio or any part thereof or pending such realisation (or if the Portfolio or any part thereof cannot be sold), the ability of the LLP to make payments of interest and principal on the Covered Bonds.

It is possible that, prior to the maturity of the Covered Bonds, the United Kingdom may become a participating member state in the European Monetary Union and that the euro may become the lawful currency of the United Kingdom. In that event (a) all amounts payable in respect of any Covered Bonds denominated in pounds Sterling may become payable in euro; (b) applicable provisions of law may allow or

require the Covered Bonds to be re-denominated into euro and additional measures to be taken in respect of such Covered Bonds; and (c) the introduction of the euro as the lawful currency of the United Kingdom may result in the disappearance of published or displayed rates for deposits in pounds Sterling used to determine the rates of interest on such Covered Bonds or changes in the way those rates are calculated, quoted and published or displayed. The introduction of the euro could also be accompanied by a volatile interest rate environment which could adversely affect a Borrower's ability to repay its Loan as well as adversely affect investors. It cannot be said with certainty what effect, if any, adoption of the euro by the United Kingdom will have on investors in the Covered Bonds.

EU Savings Directive

Under EC Council Directive 2003/48/EC (the **Directive**) on the taxation of savings income, a Member State is required to provide to the tax authorities of another Member State details of payments of interest (or other similar income) paid by a person within its jurisdiction to, or collected by such a person for, an individual resident in that other Member State or to certain limited types of entities established in that other Member State. However, for a transitional period, Austria and Luxembourg are instead required, subject to certain exceptions (unless during that period they elect otherwise) to operate a withholding system in relation to such payments, the ending of such transitional period being dependant upon the conclusion of certain other agreements relating to information exchange with certain other countries.

In addition, the Member States have entered into reciprocal provision of information or transitional withholding arrangements with certain dependent or associated territories in relation to payments made by a person in a Member State to, or collected by such a person for, an individual resident or certain limited types of entity established in one of those territories.

If a payment were to be made or collected through a Member State or dependent or associated territory which has opted for a withholding system and as a consequence of such a system, an amount of, or in respect of, tax were to be withheld from that payment, neither the Issuer, the LLP, any Paying Agent nor any other person would be obliged to pay additional amounts with respect to any Covered Bond as a result of the imposition of such withholding tax. However, the Issuer is required to maintain a Paying Agent in a Member State that will not be obliged to withhold or deduct tax pursuant to the Directive or any law implementing or complying with, or introduced in order to conform to, such Directive if any.

On 15 September 2008, the European Commission issued a report to the council of the European Union on the operation of the Directive, which included the Commission's advice on the need for changes to the Directive. On 13 November 2008, the European Commission published a more detailed proposal for amendments to the Directive, which included a number of suggested changes. The European Parliament approved an amended version of this proposal on 24 April 2009. If any of those proposed changes are made in relation to the Directive, they may amend or broaden the scope of requirements described above.

Changes of law

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

UK regulated covered bond regime

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

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

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

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

Expenses of insolvency officeholders

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

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

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

Insolvency Act 2000

Significant changes to the United Kingdom insolvency regime have been enacted since 2000, including the Insolvency Act 2000, the relevant provisions of which came into force on 1 January 2003. The Insolvency Act 2000 allows certain "small" companies to seek protection from their creditors for a period of 28 days for

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

A "small" company is defined as one which satisfies two or more of the following criteria: (i) its turnover is not more than £6.5 million; (ii) its balance sheet total is not more than £3.26 million; and (iii) the number of employees is not more than 50. The position as to whether or not a company is a "small" company may change from time to time and consequently no assurance can be given that the LLP, at any given time, will not be determined to be a "small" company. The United Kingdom Secretary of State for Business, Innovation and Skills (formerly the Secretary of State for Business, Enterprise and Regulatory Reform) may by regulation modify the eligibility requirements for "small" companies and can make different provisions for different cases. No assurance can be given that any such modification or different provisions will not be detrimental to the interests of the Covered Bondholders.

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

English law security and insolvency considerations

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

A number of cases are pending in the US bankruptcy courts that assert the invalidity of contractual subordination provisions, based upon both principles of US bankruptcy law and the theory that the provision constitutes a forfeiture or penalty. If a creditor of the LLP becomes subject to insolvency proceedings in the US (such as a swap counterparty), and it is owed a payment by the LLP, a question arises as to whether the bankrupt creditor or any insolvency official appointed in respect of that creditor could seek to challenge the contractual subordination provisions in the English law governed transaction documents. The outcome of the cases remains unclear at this stage, but it should be noted that decisions of the English courts have been supportive of the enforceability of contractual subordination provisions.

Insolvency proceedings and subordination provisions

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

The English Court of Appeal has recently affirmed the decision of the English High Court that such a subordination provision is valid under English law, although the UK Supreme Court has granted leave to appeal with respect to the Court of Appeal's decision. Contrary to the determination of the English Court of Appeal, the US Bankruptcy Court recently held that such a subordination provision is unenforceable under US bankruptcy law and that any action to enforce such provision would violate the automatic stay which applies under such law in the case of a US bankruptcy of the counterparty. The implications of this conflicting judgment are not yet known. Like the recent English decision, the US decision may be subject to appeal.

If a creditor of the Issuer (such as a Swap Provider) or a related entity becomes subject to insolvency proceedings in any jurisdiction outside England and Wales (including, but not limited to, the US), and it is owed a payment by the Issuer, a question arises as to whether the insolvent creditor or any insolvency official appointed in respect of that creditor could successfully challenge the validity and/or enforceability of subordination provisions included in the English law governed Transaction Document*s* (such as a provision of the Priorities of Payments which refers to the ranking of the Swap Providers' payment rights in respect of the Excluded Swap Termination Amount). In particular, based on the decision of the US Bankruptcy Court referred to above, there is a risk that such subordination provisions would not be upheld under US bankruptcy laws. Such laws may be relevant in certain circumstances with respect to a range of entities which may act as Swap Provider, including US established entities and certain non-US established entities with assets or operations in the US (although the scope of any such proceedings may be limited if the relevant non-US entity is a bank with a licensed branch in a US state). In general, if a subordination provision included in the Transaction Documents was successfully challenged under the insolvency laws of any relevant jurisdiction outside England and Wales and any relevant foreign judgment or order was recognised by the English courts, there can be no assurance that such actions would not adversely affect the rights of the Covered Bondholders, the market value of the Covered Bonds and/or the ability of the Issuer to satisfy its obligations under the Covered Bonds.

Lastly, given the general relevance of the issues under discussion in the judgments referred to above and that the Transaction Documents will include terms providing for the subordination of the Excluded Swap Termination Amount, there is a risk that the final outcome of the dispute in such judgments (including any recognition action by the English courts) may result in negative rating pressure in respect of the Covered Bonds. If any rating assigned to the Covered Bonds is lowered, the market value of the Covered Bonds may reduce.

Enterprise Act 2002

The Insolvency Act contains provisions which continue to allow for the appointment of an administrative receiver in relation to certain transactions in the capital markets. These provisions apply to the LLP as if it were a company. The relevant exception provides that the right to appoint an administrative receiver is retained for certain types of security (such as the Security) which form part of a capital market arrangement (as defined in the Insolvency Act), which would include the issue of covered bonds, and which involves indebtedness of at least £50,000,000 (or, when the relevant security document (being in respect of the transactions described in this Base Prospectus, the Deed of Charge) was entered into, a party to the relevant transaction (such as the Issuer) was expected to incur a debt of at least £50,000,000) and the issue of a capital

market investment (also defined but generally a rated, listed or traded bond). The Secretary of State may, by secondary legislation, modify the capital market exception and/or provide that the exception shall cease to have effect. No assurance can be given that any such modification or provision in respect of the capital market exception, or its ceasing to be applicable to the transactions described in this Base Prospectus, will not be detrimental to the interests of the Covered Bondholders.

The Insolvency Act also contains an out-of-court route into administration for a qualifying floating charge-holder, the relevant company itself or its directors. These apply to limited liability partnerships (such as the LLP). The relevant provisions provide for a notice period during which the holder of the floating charge can either agree to the appointment of the administrator proposed by the LLP or appoint an alternative administrator, although a moratorium on enforcement of the relevant security will take effect immediately after notice is given. If the qualifying floating charge-holder does not respond to the LLP notice of intention to appoint, the LLP appointee will automatically take office after the notice period has elapsed.

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

Financial Services Compensation Scheme

The FSMA 2000 established the Financial Services Compensation Scheme (the **FSCS**), which pays compensation to eligible customers of authorised financial services firms which are unable, or are likely to be unable, to pay claims against them. Because an institution's FSCS levy is linked to its share of the UK deposit market, our FSCS levy may have a material impact on our profits. As at the time of this Prospectus, a number of claims against the FSCS have been triggered to date. Claims on the FSCS are funded by loans from the Bank of England, and until such loans are repaid, increased levies on UK deposit-taking institutions fund interest payments on such loans. As a result of the various claims under the FSCS, the Issuer, in common with all regulated UK deposit takers, has recently been subject to significantly increased FSCS levies. In certain circumstances, regulated UK deposit takers may further be required to fund, by way of a further increase in the FSCS levy, the capital repayment to the Bank of England of a loan. There can also be no assurance that there will be no actions taken under the Banking Act that may lead to further claims against the FSCS, and concomitant increased FSCS levies payable by the Issuer (and other regulated UK deposit takers), which may have a material adverse effect on the Issuer's results of operation.

Future legislative and regulatory changes could force the Nationwide Group to comply with certain operational restrictions, take steps to raise further capital, and/or increase the Nationwide Group's expenses and/or otherwise adversely effect the Nationwide Group's business results, financial condition or prospects

In July 2009, the UK Government (the **Government**) issued a White Paper (the **White Paper**) which builds on and responds to the previously published Turner Review (March 2009) and Bank of England Financial Stability Report (June 2009), both of which contained proposals for reform of the structure and regulation of the banking system. Proposals in the White Paper included: enhanced regulatory powers for the FSA; introducing pre-funding for the UK's deposit guarantee scheme by 2012; requiring banks to develop and maintain detailed plans for winding down (or resolution); and more stringent capital and liquidity requirements for systemically significant firms.

In October 2009, the second Turner Review was published, which developed some issues highlighted for further discussion from the March review. In November 2009, the Financial Services Bill was presented to Parliament and in April 2010 the Financial Services Act (the **FS Act**) was passed. The FS Act consolidates some of the proposals presented in the White Paper, in addition to enhancing the FSA's disciplinary and

enforcement powers. Specifically, the FS Act places a duty on the FSA to make rules requiring authorised firms to prepare recovery and resolution plans and to act in accordance with its remuneration policy. The FSA is consulting on the implementation of the FS Act. The proposals set out in the consultation paper, if implemented, could have a significant impact on the Nationwide Group's operations, structure, costs, and/or capital requirements. Proposals made in the FSA's consultation paper on the FS Act, taken with the more regular and detailed reporting obligations which are expected to accompany regulatory reform, the development and maintenance of a wind down plan, and the move to pre-funding of the deposit protection scheme in the UK, would result in additional costs for the Nationwide Group, and such costs could be material.

On 16 June 2010, the Chancellor of the Exchequer announced the intention of the new coalition government with respect to the following matters:

- the existing tripartite regulatory regime in the UK will be abolished;
- the FSA will cease to exist in its current form;
- a new prudential regulator, which will operate as a subsidiary of the Bank of England, will be created that will carry out the prudential regulation of financial firms in the UK, including banks, investment banks, building societies and insurance companies;
- an independent Financial Policy committee at the Bank of England will be created that will have the tools and the responsibility to look across the economy at the macro issues that may threaten economic and financial stability and take effective action in response; and
- a powerful new Consumer Protection and Markets Authority will be established.

At this point it is impossible to predict the effect to which any of the proposed changes will have on our operations, business and prospects or how any of the proposals discussed above will be affected and implemented in light of the fundamental changes to the regulatory environment proposed by the new coalition government. Accordingly, we cannot assure that any changes to the existing regulatory regime arising from the implementation of any of the foregoing matters or any other regulatory changes that may be proposed will not have a material adverse effect on our operations, business, results, financial condition or prospects.

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

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

The ability of the Nationwide Group to access wholesale and retail funding sources on satisfactory economic terms is subject to a variety of factors, including a number of factors outside of its control, such as liquidity constraints, general market conditions, regulatory requirements and loss of confidence in the UK banking system.

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

The maintenance and growth of the level of the Issuer's lending activities depends in large part on the availability of retail deposit funding on appropriate terms, for which there has been increased competition since the severe disturbances in the financial markets began. Increases in the cost of such funding have had a negative impact on the Issuer's margins and profit, as well as the total amount of the Issuer's retail savings balances and the amount of the Issuer's core lending, and the Issuer does not expect any improvement in this trend in the short term. In extreme circumstances, loss in consumer confidence could result in high levels of withdrawals from the Issuer's retail deposit base, upon which the Issuer relies for lending and which could have a material adverse effect on the Issuer's business, financial position and results. In addition, if the difficulties in the wholesale funding markets are not resolved or central bank provision of liquidity to the financial markets is abruptly curtailed, it is likely that wholesale funding will continue to prove difficult to obtain.

Whilst various governments, including the Government, have taken substantial measures to ease the crisis in liquidity, there can be no assurance that these measures will succeed in materially improving the liquidity position of major UK banks and building societies, including the Nationwide Group, in the long term. In addition, the availability and the terms on which any such measures will continue to be made available to the Nationwide Group in the longer term are uncertain. The Nationwide Group does not have influence over the policy making behind such measures. Further, there can be no assurance that these conditions will not lead to an increase in the overall concentration risk and cost of funding of the Nationwide Group or otherwise adversely affect the Nationwide Group. The Issuer has availed itself of certain measures made available by the Government to financial institutions. The Issuer does not expect that there will be any extension or renewal of the Government's 2008 Special Liquidity Scheme (the **Special Liquidity Scheme**) (which was closed for new transactions in January 2009) or the Credit Guarantee Scheme (which was closed for new issuance in February 2010 and is only available for certain refinancing of debt that was issued pursuant to the Credit Guarantee Scheme). Throughout the course of 2011 and 2012, the Issuer will need to refinance its obligations arising from the maturity of Special Liquidity Scheme transactions and Credit Guarantee Scheme issuances that have been undertaken. Over the same period a number of other UK banks and building societies that have availed themselves of the same measures will also be seeking to refinance their obligations under the Special Liquidity Scheme and the Credit Guarantee Scheme. Accordingly, this may affect our ability to access wholesale funding arrangements on satisfactory market terms in order to meet our continuing funding requirements and could have a material impact on our liquidity.

Risk Factors Relating To The Issuer

The Issuer's business and financial performance have been and will continue to be affected by general economic conditions in the UK and elsewhere and the severe dislocation in the global financial markets

The Issuer is directly and indirectly subject to inherent risks arising from general economic conditions in the UK and other economies and the state of the global financial markets both generally and as it specifically affects financial institutions. For nearly three years, the global economy and the global financial system have been experiencing a period of significant turbulence and uncertainty. The very severe dislocation of the financial markets around the world that began in August 2007 and significantly worsened in 2008, has

triggered widespread problems at many commercial banks, investment banks, insurance companies, building societies and other financial and related institutions in the UK and around the world. This dislocation has severely impacted general levels of liquidity, the availability of credit and the terms on which credit is available. This crisis in the financial markets led the Government and other governments to inject liquidity into the financial system and take other forms of action relating to financial institutions aimed at both supporting the sector and providing confidence to the market.

Despite these actions, the volatility and disruptions in the financial markets have continued. Although there was some easing of market disruptions in the second half of 2009 and the early part of 2010, recent developments, particularly in the eurozone, have demonstrated that there continues to be significant dislocations and uncertainty. These market dislocations have also been accompanied by recessionary conditions and trends in the UK and many economies around the world. The widespread deterioration in the UK and other economies around the world has adversely affected, among other things, consumer confidence, levels of unemployment, the state of the housing market, the commercial real estate sector, bond markets, equity markets, counterparty risk, inflation, the availability and cost of credit, transaction volumes, the liquidity of the global financial markets and market interest rates, which in turn has had and may continue to have a material adverse effect on the Issuer's business, operating results, financial conditions and prospects.

While recent economic figures show the UK and a number of other countries exiting recession, most forecasts are that the recovery will be at a modest pace and is likely to be protracted. In any event, the rate at which deterioration of the UK and global economies has occurred has proven very difficult to predict and this will apply to any further deterioration or any recovery.

The exact nature of the risks that the Issuer faces and how and the extent to which they ultimately will impact the Issuer is difficult to predict and guard against in light of (i) the severity and duration of the global financial crisis, (ii) the inter-related nature of the risks involved, (iii) difficulties in predicting whether recoveries will be sustained and at what rate, and (iv) the fact that the risks are totally or partially outside of the Issuer's control.

Currently, the Issuer believes the mortgage and savings market in the UK is beginning to stabilise and improve. Unless there is a significant spike in interest rates, the Issuer believes that a major dip in prices is unlikely over the next year. At the same time, the upside potential for house prices is limited by the high level of prices relative to household earnings and the more restricted availability of mortgage credit relative to pre-crisis levels. Despite the recent increases in house prices, the depth of the previous declines as well as the continuing uncertainty as to the timing and extent of the economic recovery will mean that some lending will not be fully secured and losses could be incurred on these loans should they go into possession.

Evidence from the early months of 2010 suggests that the UK household savings market is beginning to improve. However, low real interest rates are leading many households to direct funds toward debt reduction or investments in the equity markets rather than to bank and building society deposits. This relative weakness in the savings market accentuates the need for continuation of the recovery in long-term wholesale funding markets, which will be necessary to support availability of credit and the repayment by the industry of government-sponsored funding schemes due to mature during 2011 and 2012.

The Issuer has been experiencing a decline in its net interest margin. The main factor driving the reduction in margin has been the increased cost of retail funding, reflecting the competitive savings market and the progressive re-pricing of long term wholesale funding. This has been partly offset by wider spreads on new mortgage pricing, the impact of which has been limited as liabilities continue to reprice faster than the asset side of the balance sheet due to very low levels of re-mortgage activity and the Issuer's Base Mortgage Rate (**BMR**) commitment to existing borrowers, whereby the Issuer guaranteed to existing customers that its BMR mortgage will be no more than 200 basis points above the Bank of England Base Rate. The decline in net interest margin also reflects the fact that customers have continued to benefit from the Issuer's decision to implement the mortgage tracker floor when the Issuer's Base Rate reached 2%, 0.75% below their contractual floor limit of 2.75%.

In the Issuer's commercial lending division, ongoing difficult market conditions resulted in an increase in commercial loan defaults in the year ended 4 April 2010. However, signs of improvement have been seen in the second half of the last financial year as the growth in impairments began to slow. The increase in defaults in the year ended 4 April 2010 has been triggered by tenant failures and the Issuer's borrowers' subsequent inability to service loans, along with covenant breaches on loan-to-value requirements and business failures on owner occupied properties.

The continuation of margin compression and exposure to both retail and commercial loan impairment charges resulting from the impact of general economic conditions, which the Issuer does not expect to abate significantly in the short term, means that the Issuer expects the lower levels of profitability that the Issuer has experienced in the last eighteen months to continue throughout the year ending 4 April 2011, and there remains the possibility of further downward pressure on profitability depending on a number of influences, such as the consequences of a more austere economic environment.

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

The Issuer's financial performance is affected by borrower credit quality.

Risks arising from changes in credit quality and the recoverability of loans and amounts due from counterparties are inherent in a wide range of the Issuer's businesses. Adverse changes in the credit quality of the Issuer's borrowers and counterparties or a further general deterioration in the UK or global economic conditions, including such changes or deterioration arising from systemic risks in the financial systems, could affect the recoverability and value of their assets and require an increase in our impairment provision for bad and doubtful debts and other provisions.

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

Borrowers seeking to avoid these increased monthly payments by refinancing their mortgage loans may no longer be able to find available replacement loans at comparably low interest rates. Recent declines in housing prices and/or any further 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.

To a large extent the recent rapid fall in the Bank of England base rate has served to protect borrowers from payment shock at the end of initial fixed rate mortgage terms. Given our forecast that the base rate will remain very low for an extended period, the Issuer believes that this situation is likely to continue for at least the next twelve months and potentially for significantly longer. However, there is a risk that the economy will reinflate at an accelerated pace, necessitating rapid rises in the Bank of England base rate and/or rises sooner than the Issuer had forecasted. This would inevitably result in higher mortgage rates, so that borrowers who are currently on low backbook or initial deals could find themselves subject to higher rates in the future. The current uncertainties in the UK, European and world economies make forecasting the future path of interest rates very difficult.

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

Developments in the Issuer's industry and increased competition could have a material adverse effect on its operations. The Issuer operates in an increasingly competitive UK personal financial services market. The Issuer competes mainly with other providers of personal finance services, including banks, building societies and insurance companies. See "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Overview—Impact of Economic Conditions in the United Kingdom Generally*".

The UK mortgage market has undergone a period of adjustment following the onset of the credit crunch. Lenders have moved increasingly towards a policy of concentrating on the highest quality customers, judged by credit score and loan to value criteria, and there is strong competition for these customers. The supply of credit is much more limited for those potential customers without a large deposit or good credit history. As the wholesale funding market has become more challenging, there has been greater competition for retail deposits, which has inevitably impacted on lenders' margins.

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

The Issuer's success as a financial institution depends on its ability to manage and control its financial risk, which includes liquidity, market and credit risk. The Issuer is exposed to liquidity risk as a result of mismatches in cash flows from balance sheet assets and liabilities and off-balance sheet financial instruments. The Issuer has market risk exposure as a result of changes in interest rates, foreign currency prices, asset prices or other financial contracts. Credit risk is the risk that a customer or counterparty is unable to meet its obligations to the Issuer as they fall due. If the Issuer fails to manage and control these risks, the Issuer could become unable to meet its obligations, including those under the Covered Bonds, resulting in material adverse effects to the Issuer's business, financial condition and reputation. For additional information about our policies for managing and controlling liquidity, market and credit risk, see the section entitled "*Financial Risk Management*".

The Issuer's businesses are also dependent on the ability to process a very large number of transactions efficiently and accurately. Operational risk and losses can result from fraud, errors by employees, failure to document transactions properly or to obtain proper internal authorisation, failure to comply with regulatory requirements and conduct of business rules, equipment failures, natural disasters or the failure of external systems, for example, those of the Issuer's suppliers or counterparties. Although the Issuer has implemented risk controls and loss mitigation actions, and substantial resources are devoted to developing efficient procedures and to staff training, it is not possible to implement procedures which are fully effective in controlling each of the operational risks noted above. Notwithstanding the above, this risk factor should not be taken to imply that the Issuer will be unable to comply with its obligations as a company with securities admitted to the Official List or as a supervised firm regulated by the FSA.

Risks associated with regulatory authority and monetary policy of the UK and changes thereto may adversely affect the Issuer's business.

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

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

There are a number of business risks associated with the UK personal finance sector that alone or cumulatively could have a material adverse effect on the Issuer's operations. These risks include:

- if the United Kingdom were to adopt the euro as its currency. The Issuer has incurred costs preparing its business for the potential adoption of the euro, and these costs will continue. Additionally, the adoption of the euro could destabilise the United Kingdom's economy, which may have an adverse effect on the Issuer's business; and

- the Financial Services Authority, and other bodies such as the Financial Services Ombudsman, could impose additional regulations on current and past dealings with retail customers. As a result, the Issuer may be required to incur costs to apply these regulations to our business, including costs relating to advice given to retail customers that purchased endowment policies used to repay mortgage loans.

On 16 June 2010, the Chancellor of the Exchequer announced the intention of the new coalition government with respect to the following matters:

- the existing tripartite regulatory regime in the UK will be abolished;

- the FSA will cease to exist in its current form;

- a new prudential regulator, which will operate as a subsidiary of the Bank of England, will be created that will carry out the prudential regulation of financial firms in the UK, including banks, investment banks, building societies and insurance companies;

- an independent Financial Policy committee at the Bank of England will be created that will have the tools and the responsibility to look across the economy at the macro issues that may threaten economic and financial stability and take effective action in response; and

- a powerful new Consumer Protection and Markets Authority will be established.

In addition, on 22 June 2010, the Chancellor of the Exchequer announced that the new coalition government will introduce a bank levy from 1 January 2011. The levy will apply to UK banking groups, building societies and the operations of non-UK banks in the UK, but only to the extent that the relevant aggregate liabilities (subject to certain exclusions, including for Tier 1 capital, insured retail deposits and repos secured on sovereign debt) of such institutions amount to £20 billion or more. It is proposed that the levy will be set at 0.07% of the relevant liabilities and it is expected to raise over £2 billion annually. There will, however, be a lower rate for the levy of 0.04% in 2011, and a reduced rate for longer-maturity wholesale funding (i.e. with greater than one year to maturity) at half the main rate. Certain as yet unannounced anti-avoidance

provisions will be introduced. Final details of the bank levy will be announced after a consultation period. It was also announced that alongside the lndependent Commission on Banking's review of the UK banking sector, the new coalition governrnent would consult on a remuneration disclosure scheme and will also look into the costs and benefits of a "Financial Activities Tax on profits and remuneration".

At this point it is impossible to predict how and the extent to which the foregoing recently announced changes will impact on our operations, business results, financial condition or prospects. Accordingly, we cannot assure that any changes to the existing regulatory regime arising from the implementation of any of the foregoing matters or any other regulatory changes that may be proposed will not have a material adverse effect on our operations, business, results, financial condition or prospects.

UK Banking Act 2009

The Banking Act 2009 (the **Banking Act**), which came into effect on 21 February 2009, includes (amongst other things) provision for a special resolution regime pursuant to which specified UK authorities have extended tools to deal with the failure (or likely failure) of a UK bank or building society (such as the Issuer, Covered Bond Swap Providers, Interest Rate Swap Providers etc). In particular, in respect of UK banks, such tools include share and property transfer powers (including powers for partial property transfers), certain ancillary powers (including powers to modify certain contractual arrangements in certain circumstances) and two new special insolvency procedures which may be commenced by UK authorities (i.e. bank insolvency and bank administration). In respect of UK building societies, the relevant tools include (i) modified property transfer powers which also refer to cancellation of shares and conferring rights and liabilities in place of such shares and (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. Pursuant to section 90C of the Building Society Act (as inserted by the Building Societies (Insolvency and Special Administration) Order 2009 (SI 2009/805)), the special insolvency proceedings contemplated by the Banking Act apply (with modifications) to building societies. It is possible that the extended tools described above could be used prior to the point at which an application for insolvency proceedings with respect to a relevant entity could be made.

In general, the Banking Act requires the UK authorities to have regard to specified objectives in exercising the powers provided for by the Act. One of the objectives (which is required to be balanced as appropriate with the other specified objectives) refers to the protection and enhancement of the stability of the financial systems of the United Kingdom. It is a condition to the exercise of a stabilisation power under the Banking Act that the FSA must be satisfied that the relevant bank or building society is failing or likely to fail to meet the FSA's threshold conditions for authorisation and that, having regard to timing and other relevant circumstances, it is not reasonably likely that action would be taken that is available that would have enabled such bank or building society to satisfy the threshold conditions. The Act includes provisions related to compensation in respect of transfer instruments and orders made under it. In general, there is considerable uncertainty about the scope of the powers afforded to UK authorities under the Banking Act and how the UK authorities may choose to exercise them.

If an instrument or order were to be made under the Banking Act in respect of the Issuer, Covered Bond Swap Providers, Interest Rate Swap Providers, etc such instrument or order may (amongst other things) affect the ability of the relevant entity to satisfy its obligations under the Transaction Documents and/or result in modifications to the Terms and Conditions of the Bonds and/or the Transaction Documents. In particular, modifications may be made pursuant to powers permitting certain trust arrangements to be removed or modified and/or via powers which permit provision to be included in an instrument or order such that the relevant instrument or order (and certain related events) is required to be disregarded in determining whether certain widely defined "default events" have occurred (which events would include certain trigger events included in the Transaction Documents which are linked to the relevant entity, including, in the case of the Issuer, trigger events in respect of perfection of legal title to the Loans and the Issuer Events of Default). Moreover, other than in the context of certain partial property transfers under the Act,

modifications may be made to contractual arrangements between the relevant institution and certain group companies (such as the LLP in the case of the Issuer). As a result, the making of an instrument or order in respect of the Issuer, Covered Bond Swap Providers, Interest Rate Swap Providers etc, may affect the ability of the LLP to meet its obligations under the Covered Bond Guarantee and/or the ability of the Issuer to meet its obligations in respect of the Covered Bonds. While there is provision for compensation in certain circumstances under the Act, there can be no assurance that Covered Bondholders would recover compensation promptly and equal to any loss actually incurred.

At present, the UK authorities have not made an instrument or order under the Banking Act in respect of the Issuer, Covered Bond Swap providers, Interest Rate Swap providers, etc, and there has been no indication that it will make any such instrument or order, but there can be no assurance that this will not change and/or that Covered Bondholders will not be adversely affected by any such instrument or order if made.

In addition, on 7 April 2010 the Building Societies (Financial Assistance) Order 2010 (the **Financial Assistance Order**) came into force in exercise of certain powers under the Banking Act for the purpose of modifying the application of the Building Societies Act in specified circumstances to facilitate the provision to a building society of relevant financial assistance (including the giving of guarantees or indemnities or any other kind of financial assistance (actual or contingent)) by certain 'qualifying institutions'. Qualifying institutions for this purpose include HM Treasury, the Bank of England, another central bank of a Member State of the European Economic Area, the European Central Bank, or any person acting for or on behalf of any such institution or providing financial assistance to a building society on the basis of financial assistance from such an institution. Most significantly, the Financial Assistance Order would permit any qualifying institution to provide such assistance without it counting for the purpose of the 50% limit on the Issuer's non-member funding. The Financial Assistance Order also modifies the restriction in section 9B of the Building Societies Act on the creation of floating charges by a building society and would permit the Issuer to create a floating charge over its assets in favour of a qualifying institution in respect of any financial assistance provided. The creation of a floating charge by the Issuer in favour of a qualifying institution would allow for an administrative receiver to be appointed over the assets of the Issuer.

Demutualisation, Mutual Society Transfers and Consequences of the Building Societies Act may have an adverse impact on the holders of the Covered Bonds

Subject to confirmation by the FSA, Nationwide's members and directors determine whether it remains a building society or if it demutualises (save in circumstances where the FSA makes a direction under section 42B of the Building Societies Act or a UK authority makes an instrument or order under the Banking Act 2009 which results in a demutualisation taking place).

The Building Societies Act includes provisions under which a building society may demutualise by transferring the whole of its business to a company. In addition, the Building Societies Act (as modified by the Mutual Societies (Transfers) Order 2009 (the **Mutual Transfers Order**) made under section 3 of the Building Societies (Funding) and Mutual Societies (Transfers) Act 2007 (the **Funding and Mutual Societies Transfers Act**)) includes provisions under which a building society may transfer the whole of its business to the subsidiary of another mutual society (as defined in section 3 of the Funding and Mutual Societies Transfers Act). At present, the claims of depositors and other unsubordinated creditors of the Issuer would rank ahead of share accounts (which term excludes any deferred shares) and the members' rights to any surplus in the event of a liquidation of the Issuer and the claims of subordinated creditors of the Issuer would rank behind share accounts but ahead of members' rights to any surplus in the event of a liquidation of the Issuer. If, however, the Issuer transfers its business to a specially formed company or an existing company (as defined in the Building Societies Act), or to a subsidiary of another mutual society, all the liabilities of the Issuer which immediately prior thereto were classified as share accounts will thereafter rank at least *pari passu* with all other unsecured and unsubordinated liabilities of the Issuer's successor.

Under section 90B of the Building Societies Act (which was inserted by the Funding and Mutual Societies Transfers Act), HM Treasury may, by order, make provision for the purpose of ensuring that, on the winding

up, or dissolution by consent, of a building society, any assets available for satisfying the society's liabilities to creditors (other than liabilities in respect of subordinated deposits; liabilities in respect of preferential debts; or any other category of liability which HM Treasury specifies in the order for these purposes) or to shareholders (other than liabilities in respect of deferred shares) are applied in satisfying those liabilities *pari passu*. The power to make an order under section 90B of the Building Societies Act is exercisable by statutory instrument but may not be made unless a draft of it has been laid before and approved by a resolution of each House of Parliament. No such order has been made as of the date of this Base Prospectus.

Following a transfer of business to a company by the Issuer (including where the transfer is to a subsidiary of another mutual society) the obligations under the Covered Bonds will rank (a) in priority to both the rights of the holders of the equity share capital in the company to any repayment of capital or surplus on a liquidation and any obligations of the company (whether or not created prior to such transfer) expressed to rank junior to such Covered Bonds, (b) equally with other unsecured and unsubordinated creditors (including inter-bank lenders and retail depositors) and (c) behind any statutorily preferential creditors.

For additional discussion in relation to the ranking of our debt, see the section entitled "Terms and Conditions of the Covered Bonds". For further information about demutualisation, see the section entitled "*Supervision and Regulation*"

The Issuer is subject to capital requirements that could limit its operations

The Issuer is subject to capital adequacy requirements adopted by the FSA for a building society, which provide for a minimum ratio of total capital to risk-adjusted assets both on a consolidated basis and on a non-consolidated basis expressed as a percentage. If the Issuer fails to maintain these ratios, this may result in administrative actions or sanctions against it, which may impact the Issuer's ability to fulfil its obligations under the Covered Bonds.

In addition, the risk-adjusted capital guidelines (the **Basel Accord**) promulgated by the Basel Committee on Banking Supervision (the **Basel Committee**), which form the basis for the European Union (**EU**)'s and thus the FSA's capital adequacy requirements, have been revised and implementation began at the start of 2008. Broadly, the principal changes effected by the revised requirements include the application of risk-weighting (depending upon the credit status of certain customers, using an "internal ratings-based" approach to credit risk, and subject to approval of supervisory authorities). The revised requirements also include allocation of risk capital in relation to operational risk and supervisory review of the process of evaluating risk measurement and capital ratios.

Further changes to the capital requirements affecting building societies will be implemented in the UK in late 2010/early 2011 resulting from amendments to the Capital Requirements Directive. These will include changes to the criteria for hybrid tier 1 capital, the control of large exposures and requirements relating to securitisation transactions. The requirements for hybrid capital to count as non-core tier 1 capital will be toughened, as will the relative proportions of core, non-core and innovative tier 1 capital. However, it is proposed that existing instruments that do not comply with the new rules will continue to count as capital for a long transitional period.

In addition, consultation is taking place in relation to a further set of changes to the capital rules, including the definition of capital. Representations are being made on behalf of building societies and other mutuals with a view to ensuring that they will not be significantly prejudiced compared to banks in terms of their ability to access core tier 1 capital but the outcome of these consultations is not certain at this stage.

Market risks may adversely impact the Issuer's business.

The most significant market risks the Issuer faces are interest rate, foreign exchange and bond and equity price risks. 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 foreign exchange dealing.

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

Risk Factors Relating To The LLP

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

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

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

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

Excess Proceeds received by the Bond Trustee

Following the occurrence of an Issuer Event of Default and service of an Issuer Acceleration Notice, the Bond Trustee may receive Excess Proceeds. The Excess Proceeds will be paid by the Bond Trustee on behalf of the holders of the Covered Bonds of the relevant Series to the LLP for its own account, as soon as practicable, and will be held by the LLP in the GIC Account and the Excess Proceeds will thereafter form part of the Security and will be used by the LLP in the same manner as all other moneys from time to time

standing to the credit of the GIC Account. Any Excess Proceeds received by the Bond Trustee will discharge *pro tanto* the obligations of the Issuer in respect of the Covered Bonds, Receipts and Coupons (subject to restitution of the same if such Excess Proceeds shall be required to be repaid by the LLP). However, the obligations of the LLP under the Covered Bond Guarantee are unconditional and irrevocable and the receipt by the Bond Trustee of any Excess Proceeds will not reduce or discharge any such obligations.

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

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

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

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

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

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

Reliance of the LLP on third parties

The LLP has entered into agreements with a number of third parties, which have agreed to perform services for the LLP. In particular, but without limitation, the Servicer has been appointed to service Loans in the Portfolio sold to the LLP, the Cash Manager has been appointed to calculate and monitor compliance with the Asset Coverage Test and the Amortisation Test and to provide cash management services to the LLP and the GIC Account and Transaction Account will be held with the Account Bank. In the event that any of

those parties fails to perform its obligations under the relevant agreement to which it is a party, the realisable value of the Portfolio or any part thereof or pending such realisation (if the Portfolio or any part thereof cannot be sold) the ability of the LLP to make payments under the Covered Bond Guarantee may be affected. For instance, if the Servicer has failed to adequately administer the Loans, this may lead to higher incidences of non-payment or default by Borrowers. The LLP is also reliant on the Swap Providers to provide it with the funds matching its obligations under the Intercompany Loan Agreement and the Covered Bond Guarantee, as described below.

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

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

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

Reliance on Swap Providers

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

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

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

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

Differences in timings of obligations of the LLP and the Covered Bond Swap Provider under the Covered Bond Swaps

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

Change of counterparties

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

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

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

Limited description of the Portfolio

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

- the Seller selling Loans and their Related Security (or New Loan Types and their Related Security) to the LLP;
- New Sellers acceding to the Transaction and selling Loans and their Related Security (or New Loan Types and their Related Security) to the LLP; and
- the Seller repurchasing Loans and their Related Security in accordance with the Mortgage Sale Agreement.

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

Scottish and Northern Irish Loans

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

Fixed charges may take effect under English law as floating charges

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

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

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

Liquidation expenses

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

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

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

Maintenance of Portfolio

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

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

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

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

threshold to ensure that the assets of the LLP are sufficient to meet its obligations under the Covered Bond Guarantee and senior expenses that rank in priority to or *pari passu* with amounts due on the Covered Bonds.

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

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

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

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

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

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

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

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

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

Selected Loans for the best price reasonably available notwithstanding that such price may be less than the Adjusted Required Redemption Amount.

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

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

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

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

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

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

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

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

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

Following a breach of the Pre-Maturity Test and/or the occurrence of an Issuer Event of Default, service on the Issuer of an Issuer Acceleration Notice and service on the LLP of a Notice to Pay (but in each case prior to the service of a LLP Acceleration Notice and/or the commencement of winding-up proceedings against the LLP and/or realisation of the Security), the LLP will be obliged to sell Selected Loans and their Related Security to third party purchasers, subject to a right of pre-emption enjoyed by the Seller pursuant to the terms of the Mortgage Sale Agreement (see "*Summary of the Principal Documents – LLP Deed – Method of Sale of Selected Loans*"). In respect of any sale of Selected Loans and their Related Security to third parties, however, the LLP will not be permitted to give warranties or indemnities in respect of those Selected Loans and their Related Security (unless expressly permitted to do so by the Security Trustee). There is no assurance that the Seller would give any warranties or representations in respect of the Selected Loans and their Related Security. Any Representations or Warranties previously given by the Seller in respect of the Loans in the Portfolio may not have value for a third party purchaser if the Seller is then insolvent. Accordingly, there is a risk that the realisable value of the Selected Loans and their Related Security could be adversely affected by the lack of representations and warranties which in turn could adversely affect the ability of the LLP to meet its obligations under the Covered Bond Guarantee.

Default by Borrowers in paying amounts due on their Loans

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

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

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

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

The Loans of New Sellers may be included in the Portfolio

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

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

Changes to the Lending Criteria of the Seller

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

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

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

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

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

- second, the rights of the LLP may be subject to the rights of the Borrowers against the Seller, such as rights of set-off, which occur in relation to transactions or deposits made between Borrowers and the Seller, and the rights of Borrowers to redeem their mortgages by repaying the Loans directly to the Seller; and

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

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

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

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

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

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

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

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

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

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

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

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

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

Further, there may be circumstances in which:

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

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

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

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

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

Limited recourse to the Seller

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

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

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

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

Regulatory changes by the FSA, the OFT and any other regulatory authorities

FSMA 2000

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

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

A credit agreement is a **Regulated Mortgage Contract** under the FSMA 2000 if, at the time it is entered into on or after N(M): (a) the borrower is an individual or trustee; (b) the contract provides for the obligation of the borrower to repay to be secured by (in England and Wales) a first ranking legal mortgage or (in Northern Ireland) a first ranking legal charge or first ranking legal mortgage or (in Scotland) a first ranking standard security on land (other than timeshare accommodation) in the UK; and (c) at least 40% of that land is used, or is intended to be used, as or in connection with a dwelling by the borrower or (in case of credit

provided to trustees) by an individual who is a beneficiary of the trust, or by a "related person" (broadly, the person's spouse, near relative or a person with whom the borrower has a relationship which is characteristic of a spouse).

The main effects are that, on or after N(M), unless an exclusion or exemption applies: (a) each entity carrying on a regulated mortgage activity by way of business has to hold authorisation and permission from the FSA to carry on that activity; and (b) each financial promotion in respect of an agreement relating to qualifying credit has to be issued or approved by a person holding authorisation from the FSA. It should be noted that the definition of "qualifying credit" is broader than that of "Regulated Mortgage Contract" and may include mortgage loans that are regulated by the CCA or treated as such or unregulated. If requirements as to authorisation and permission of lenders and brokers or as to the issue and approval of financial promotions are not complied with, the Regulated Mortgage Contract or (in the case of requirements as to approval and issue of advertisements) other secured credit agreement in question will be unenforceable against the borrower except with approval of the court. An unauthorised person who administers a Regulated Mortgage Contract entered into on or after N(M) may commit a criminal offence, but this will not render the contract unenforceable against the borrower.

Any credit agreement intended to be a Regulated Mortgage Contract under the FSMA 2000 might instead be wholly or partly regulated by the CCA or treated as such, or unregulated, and any credit agreement intended to be regulated by the CCA or treated as such, or unregulated, might instead be a Regulated Mortgage Contract under the FSMA 2000, because of technical rules on: (a) determining whether the credit agreement or any part of it falls within the definition of Regulated Mortgage Contract; and (b) changes to credit agreements.

The Seller is required to hold, and holds, authorisation and permission to enter into and to administer and, where applicable, to advise in respect of Regulated Mortgage Contracts. Brokers will in certain circumstances be required to hold authorisation and permission to arrange and, where applicable, to advise in respect of Regulated Mortgage Contracts.

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

The FSA's Mortgages and Home Finance: Conduct of Business Sourcebook (**MCOB**), which sets out the FSA's rules for regulated mortgage activities, came into force on 31 October 2004. These rules cover, among other things, certain pre-origination matters such as financial promotion and pre-application illustrations, pre-contract and start-of-contract and post-contract disclosure, contract changes, charges and arrears and repossessions. FSA rules for prudential and authorisation requirements for mortgage firms, and for extending the appointed representatives regime to mortgages, came into force on 31 October 2004.

A borrower who is a private person is entitled to claim damages for loss suffered as a result of any contravention by an authorised person of an FSA rule, and may set off the amount of the claim against the amount owing by the borrower under the loan or any other loan that the borrower has taken (or exercise analogous rights in Scotland or Northern Ireland). Any such set-off may adversely affect the realisable value

of the Loans in the Portfolio and accordingly the ability of the LLP to meet its obligations under the Covered Bond Guarantee.

With the intention of avoiding dual regulation, it is intended that Regulated Mortgage Contracts will not be regulated by the CCA, and the relevant regulations made in 2005 and 2008 under the FSMA 2000 are designed to clarify the position in this regard. This exemption only affects credit agreements made on or after N(M), and credit agreements made before N(M) but subsequently changed such that a new contract is entered into on or after N(M) and constitutes a separate Regulated Mortgage Contract. A court order under Section 126 of the CCA is, however, necessary to enforce a land mortgage (or, in Scotland, a standard security) securing a Regulated Mortgage Contract to the extent that the credit agreement would, apart from this exemption, be regulated by the CCA or be treated as such.

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

In the UK, the OFT is responsible for the issue of licences under, and the superintendence of the working and enforcement of, the CCA, related consumer credit regulations and other consumer protection legislation. The OFT may review businesses and operations, provide guidelines to follow and take action when necessary with regard to the consumer credit and mortgage markets in the United Kingdom.

A credit agreement is regulated by the CCA where: (a) the borrower is or includes an "individual" as defined in the CCA; (b) if the credit agreement is made before the financial limit was removed (as described below), the amount of "credit" as defined in the CCA does not exceed the financial limit of £25,000 for credit agreements made on or after 1 May 1998, or lower amounts for credit agreements made before that date; and (c) the credit agreement is not an exempt agreement under the CCA (for example, it is intended that a Regulated Mortgage Contract under the FSMA 2000 (as defined above) is an exempt agreement under the CCA).

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

There is a risk that any credit agreement intended to be a Regulated Mortgage Contract under the FSMA 2000, or unregulated, might instead be wholly or partly regulated by the CCA or treated as such because of technical rules on: (a) determining whether any credit under the CCA arises, or whether any applicable financial limit of the CCA is exceeded; (b) determining whether the credit agreement is an exempt agreement under the CCA; and (c) changes to credit agreements.

A court order under Section 126 of the CCA is necessary to enforce a land mortgage (or, in Scotland, a standard security) securing a credit agreement to the extent that the credit agreement is regulated by the CCA or treated as such. In dealing with such application, the court has the power, if it appears just to do so, to amend a credit agreement or to impose conditions upon its performance or to make a time order (for example, giving extra time for arrears to be cleared).

Under Section 75 of the CCA in certain circumstances: (a) the lender is liable to the borrower in relation to misrepresentation and breach of contract by a supplier in a transaction financed by the lender, where the related credit agreement is or is treated as entered into under pre-existing arrangements, or in contemplation of future arrangements, between the lender and the supplier; and (b) the lender has a statutory indemnity from the supplier against such liability, subject to any agreement between the lender and the supplier. The borrower may set off the amount of the claim against the lender against the amount owing by the borrower under the loan or any other loan that the borrower has taken (or exercise analogous rights in Scotland or Northern Ireland). Any such set-off in respect of the Loans may adversely affect the LLP's ability to make payments on the Covered Bond Guarantee.

The Consumer Credit Act 2006 (the **CCA 2006**), which amends and updates the CCA, was enacted on 30 March 2006 and was fully implemented by 31 October 2008.

The "extortionate credit" regime has been replaced by an "unfair relationship" test. The "unfair relationship" test applies to all existing and new credit agreements, except Regulated Mortgage Contracts under the FSMA 2000. The test explicitly imposes liability to repay amounts received from the borrower on both the originator and any assignee (such as the LLP). In applying the unfair relationship test, the courts are able to consider a wider range of circumstances surrounding the transaction, including the creditor's conduct before and after making the agreement. There is no statutory definition of the word "unfair", as the intention is for the test to be flexible and subject to judicial discretion. However the word "unfair" is not an unfamiliar term in UK legislation due to the Unfair Contract Terms Act 1977, the Unfair Terms in Consumer Contracts Regulations 1994 and the Unfair Terms in Consumer Contracts Regulations 1999. The courts may, but are not obliged to, look solely to the CCA 2006 for guidance. The FSA principles for businesses may also be relevant, and apply to the way contract terms are used in practice and not just the way they are drafted. Once the debtor alleges that an unfair relationship exists, then the burden of proof is on the creditor to prove the contrary.

An alternative dispute resolution scheme for consumer credit matters is run by the Ombudsman (as described below) and was established on 6 April 2007. The scheme is mandatory for all businesses licensed under the CCA. The OFT is given far broader powers under the CCA 2006 from 6 April 2008. For example, it can apply civil penalties, has far greater powers of investigation and can issue indefinite standard licences. For appeals against such decisions by the OFT, the CCA 2006 introduced an independent Consumer Credit Appeals Tribunal whose functions were transferred to the First-Tier Tribunal under the Transfer of Functions of the Consumer Credit Appeals Tribunal Order 2009 on 1 September 2009.

The financial limit for CCA regulation was removed for credit agreements made on or after 6 April 2008, except for (a) certain changes to credit agreements (where the credit agreement was made before 6 April 2008 and provided credit exceeding £25,000) and (b) buy to let loans made before 31 October 2008 and satisfying prescribed conditions. Buy to let loans made on or after 31 October 2008 are, irrespective of amount, exempt agreements under the CCA. Regulations define buy to let loans for these purposes as being credit agreements secured on land where less than 40% of the floor area of the secured property is used, or is intended to be used, as or in connection with a dwelling by the borrower or by a connected person. A court order under Section 126 of the CCA is, however, necessary to enforce a land mortgage (or, in Scotland, a standard security) securing a buy to let loan to the extent that the loan would, apart from this exemption, be regulated by the CCA or be treated as such.

To the extent that the credit agreement is regulated by the CCA or treated as such, it is unenforceable for any period when the lender fails to comply with requirements as to default notices. From 1 October 2008, (a) the

credit agreement is also unenforceable for any period when the lender fails to comply with further requirements as to annual statements and arrears notices, (b) the borrower is not liable to pay interest or, in certain cases, default fees for any period when the lender fails to comply with further requirements as to post-contract disclosure, and (c) interest upon default fees is restricted to nil until the 29th day after the day on which a prescribed notice is given and then to simple interest. Charges payable on any early repayment in full are restricted by a formula under the CCA, which applies to the extent that the credit agreement is regulated by the CCA or treated as such

These changes to the CCA may adversely affect the ability of the LLP to meet its obligations under the Covered Bond Guarantee.

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

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

In April 2008, the European Parliament and the Council adopted a second directive on consumer credit (Directive 2008/48/EC, the **Consumer Credit Directive**), which provides that, subject to exemptions, loans not exceeding €75,000 will be regulated. This directive will repeal and replace the first consumer credit directive on, and requires Member States to implement the directive by measures coming into force by 11 June 2010. In the UK, final implementation is delayed to 1 February 2011.

Loans secured by a land mortgage (including, in Scotland, a standard security) are, however, exempted from the Consumer Credit Directive and from the first consumer credit directive. The European Commission published a White Paper on mortgage credit in December 2007, setting out its tasks for 2008 to 2010, including, among other things, an assessment of the regulation of early repayment charges and pre-contract disclosure and interest rate restrictions. The European Commission has stated that, in its view, it is too early to decide on whether a mortgage directive would be appropriate.

Until the final text of any initiatives resulting from the White Paper process is decided and regulatory guidance on the UK's implementation of the Consumer Credit Directive is published, it is not certain what effect the adoption and implementation of the Consumer Credit Directive or any initiatives resulting from the White Paper process would have on the Loans, the Seller, the Issuer, the LLP and/or the Servicer, and their respective businesses and operations. This may adversely affect the Issuer's ability to make payments in full on the Covered Bonds when due and/or on the ability of the LLP to make payments in full on the Covered Bond Guarantee when due.

Distance Marketing of Financial Services

With effect from 31 October 2004, the Distance Marketing of Financial Services Directive (2002/65/EC) has been implemented in the United Kingdom by way of the Financial Services (Distance Marketing) Regulations 2004 (the **DM Regulations**) and amendments to MCOB.

For the purposes of the DM Regulations, a distance contract means "any contract concerning one or more financial services concluded between a supplier and a consumer under an organised distance sales or service-

provision scheme run by the supplier or by an intermediary, who, for the purposes of that contract, makes exclusive use of one or more means of distance communication up to and including the time at which the contract is concluded". A similar definition is adopted in MCOB.

The DM Regulations and MCOB require suppliers of financial services by way of distance communication to provide certain information to consumers. This information generally has to be provided before the consumer is bound by a distance contract for the supply of the financial services in question and includes, but is not limited to, general information in respect of the supplier and the financial service, contractual terms and conditions, and whether or not there is a right of cancellation. A Regulated Mortgage Contract under the FSMA 2000, if originated by a UK lender from an establishment in the UK, will not be cancellable under the DM Regulations. Other credit agreements secured by a legal mortgage or standard security on land will be cancellable under the DM Regulations if the borrower does not receive the prescribed information at the prescribed time. Where the credit agreement is cancellable under these regulations, the borrower may send notice of cancellation at any time before the end of the fourteenth day after the day on which 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.

Compliance with the DM Regulations may be secured by way of injunction (interdict in Scotland), granted on such terms as the court thinks fit to ensure such compliance, and certain breaches of the DM Regulations may render the supplier or intermediaries (and their respective relevant officers) liable to a fine; failure to comply with the MCOB rules could result in, amongst other things, disciplinary action by the FSA and possible claims under section 150 of the FSMA 2000 for breach of FSA rules.

If the borrower cancels the credit agreement under the DM Regulations, then: (a) the borrower is liable to repay the principal and any other sums paid by the lender to the borrower under or in relation to the cancelled agreement, within 30 days beginning with the day of the borrower sending notice of cancellation or, if later, the lender receiving notice of cancellation; (b) the borrower is liable to pay interest, or any early repayment charge or other charge for credit under the cancelled agreement, only if the borrower received certain prescribed information at the prescribed time and if other conditions are met; and (c) any security provided in relation to the contract is treated as never having had effect for the cancelled agreement.

Financial Ombudsman

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

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

Unfair Terms in Consumer Contracts Regulations 1994 and 1999

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 affect most of the Loans.

The UTCCR provide that:

(a) 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 contract itself will continue to bind the parties if it is capable of continuing in existence without the unfair term); and

(b) the OFT and any "qualifying body" within the 1999 Regulations (such as the FSA) may seek to enjoin (or in Scotland interdict) a business from relying on unfair terms.

The UTCCR will not affect terms which define the main subject matter of the contract, such as the borrower's obligation to repay the principal (provided that these terms are written in plain and intelligible language and are drawn adequately to the consumer's attention), but may affect terms that are not considered to define the main subject matter of the contract, such as the lender's power to vary the interest rate and certain terms imposing early repayment charges and mortgage exit administration fees.

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

The division of responsibilities between the OFT and the FSA for enforcing the UTCCR is set out in concordats made between them , most recently in November 2009. Generally, the FSA is responsible for enforcement of the UTCCR in Regulated Mortgage Contracts under the FSMA 2000 originated by lenders authorised by the FSA, and the OFT is responsible for enforcement of the UTCCR in other mortgage contracts.

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

In May 2005, the FSA issued a statement of good practice on fairness of terms in consumer contracts, which is relevant to firms authorised and regulated by the FSA in relation to products and services within the FSA's regulatory scope. This statement provides that, for locked-in borrowers, a firm may consider drafting the contract to permit a change in the contract to be made only where any lock-in clause is not exercised. In the context of the OFT's investigation into credit card default charges, the OFT on 5 April 2006 publicly announced that the principles the OFT considers should be applied in assessing the fairness of credit card default charges shall apply (or are likely to apply) also to analogous default charges in other agreements, including those for mortgages.

In January 2007, the FSA issued a statement of good practice on mortgage exit administration fees. This statement provides that the lender should ensure that the fee represents in fact the costs of the administration services that the lender provides when a borrower exits the mortgage. The FSA issued a follow-up communication in November 2007 emphasising that this statement should not be interpreted narrowly and,

where appropriate, firms should consider applying its principles to other charges. In August 2007, the FSA's Unfair Contract Terms Regulatory Guide came into force. This guide is designed to explain the FSA's policy on how it will use its powers under the 1999 Regulations.

The 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 which have been made or may be made to Borrowers covered by the UTCCR may contain unfair terms which may result in the possible unenforceability of the terms of such Loans.

In August 2002, the Law Commission for England and Wales and the Scottish Law Commission issued a joint consultation LCCP No. 166/SLCDP 119 on proposals to rationalise the UK's Unfair Contract Terms Act 1977 and the 1999 Regulations into a single piece of legislation and a final report, together with a draft bill on unfair terms, was published in February 2005. It is not proposed that there should be any significant increase in the extent of controls over terms in consumer contracts. Some changes are proposed, however, such as that: (a) a consumer may also challenge a negotiated term in an agreement on the basis that it is "unfair" and "unreasonable" within the legislation and therefore not binding on the consumer; and (b) in any challenge by a consumer (but not by the OFT or a qualifying body) of a standard term or a negotiated term, the burden of proof lies on the business to show that the term is fair and reasonable. It is too early to tell how the proposals, if enacted, would affect the Loans.

No assurance can be given that changes in the 1999 Regulations, if enacted, or changes to the FSA's and the OFT's guidance on interest variation terms will not have a material adverse effect on Issuer, the LLP, the Servicer, the Security Trustee and their respective businesses and operations. This may adversely affect the ability of the LLP to dispose of the Portfolio, or any part thereof, in a timely manner or the realisable value of the Portfolio, or any part thereof, and accordingly affect the ability of the LLP to meet its obligations under the Covered Bond Guarantee.

Unfair Commercial Practices Directive 2005

In May 2005, the European Parliament and the Council adopted a directive on unfair business-to-consumer commercial practices (Directive 2005/29/EC, the **Unfair Practices Directive**). Generally, this directive applies full harmonisation, which means that Member States may not impose more stringent provisions in the fields to which full harmonisation applies. By way of exception, this directive permits Member States to impose more stringent provisions in the fields of financial services and immovable property, such as mortgage loans.

The Unfair Practices Directive provides that enforcement bodies may take administrative action or legal proceedings against a commercial practice on the basis that it is "unfair" within the directive. This directive is intended to protect only collective interests of consumers, and so is not intended to give any claim, defence or right of set-off to an individual consumer.

The Unfair Practices Directive requires Member States to implement the Directive by measures coming into force by 12 December 2007. The UK has implemented the Directive by the Consumer Protection from Unfair Trading Regulations 2008 which came into force on 26 May 2008. In addition, the FSA has taken the Directive into account in reviewing its relevant rules, such as MCOB, and the OFT addresses commercial practices in administering licences under the CCA. The Unfair Practices Directive provides a transitional period until 12 June 2013 for applying full harmonisation in the fields to which it applies.

No assurance can be given that the UK implementation of the Unfair Practices Directive, including full harmonisation in the fields to which it applies, will not have a material adverse effect on the Loans or in the manner in which they are serviced.

Homeowner Mortgage Support Scheme

The Government announced the Homeowner Mortgage Support Scheme (the **HMSS**) on 3 December 2008, and published further details of the HMSS on 10 December 2008, and final documentation of the HMSS on 21 April 2009. The terms of the HMSS provide that, subject to certain conditions, eligible borrowers who suffer a significant and temporary loss of income may defer up to 70% of interest payments for up to two years, and the Government will guarantee a percentage of the deferred interest payments should the borrower default. The Issuer has announced that it will offer its borrowers comparable arrangements to the HMSS, but will not take up the Government guarantee. Such arrangements may adversely affect the collection of interest payments on the Loans, the timing of enforcement of the Mortgages and the realisable value of the Loans in the Portfolio and accordingly the ability of the LLP to meet its obligations under the Covered Bond Guarantee.

The Scottish Parliament has enacted the Home Owner and Debt Protection (Scotland) Act 2010 (the **2010 Act**) but a date has not yet been set for it coming into force. Once the 2010 Act comes into force, enforcement to repossess a residential property would be viewed as being a last resort in the case of borrower default and it is likely that any enforcement would take the form of an application to the Scottish courts for repossession where the heritable creditor will have to be prepared to demonstrate that they have complied with any pre-action requirements and all other reasonable attempts to resolve the position have failed.

General

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

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

Following the issue of proposals from the Basel Committee on Banking Supervision for reform of the 1988 Capital Accord, a framework has been developed by the Basel Committee on Banking Supervision which places enhanced emphasis on market discipline and sensitivity to risk. A comprehensive version of the text of the framework was published in June 2006 under the title "International Convergence of Capital Measurement and Capital Standards: A Revised Framework (Comprehensive Version)" (the **Framework**). The Framework is not self-implementing and, accordingly, implementation measures and dates in participating countries are dependant on the relevant national implementation process in those countries.

The Basel Committee announced in April 2008 its intention to take steps to strengthen certain aspects of the Framework. Following on from this the Basel Committee has published proposals for significant changes, including proposals published in December 2009 to strengthen capital requirements and to establish minimum liquidity standards (the so-called "Basel III" proposals). It is not clear whether the proposed changes will be accepted.

In July 2009, the Basel Committee finalised certain revisions to the Framework, including changes intended to enhance certain securitisation requirements (e.g. increased risk weights for "resecuritisation" exposures). In addition, the European Parliament has approved certain amendments to the Capital Requirements Directive 2006/49/EC (the **CRD**) (including investment restrictions and due diligence requirements in respect of securitisation exposures) and the European Commission has put forward further securitisation

related amendments to the European Parliament and the Council of Ministers for consideration (including increased capital charges for relevant trading book exposures and for resecuritisation exposures).

As and when implemented, the Framework (and any relevant changes to it or to any relevant implementing measures) may affect the risk-weighting of the Covered Bonds for investors who are subject to capital adequacy requirements that follow the Framework. Consequently, investors should consult their own advisers as to the consequences to and effect on them of the application of the Framework and any relevant implementing measures. Proposals and guidelines for implementing the Framework in certain participating jurisdictions are still in development and no predictions can be made as to the precise effects on any investor or otherwise.

Limited Liability Partnerships

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

Pensions Act 2004

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

A contribution notice could be served on the LLP if it was party to an act, or a deliberate failure to act, the main purpose or one of the main purposes of which was either (i) to prevent the recovery of the whole or any part of a debt which was, or might become, due from the employer under Section 75 of the Pensions Act 1995 or (ii) otherwise than in good faith, to prevent such a debt becoming due, to compromise or otherwise settle such a debt, or to reduce the amount of such a debt which would otherwise become due.

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

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

RECENT DEVELOPMENTS

On 16 June 2010, the Chancellor of the Exchequer announced the intention of the new coalition government with respect to the following matters:

- the existing tripartite regulatory regime in the UK will be abolished;
- the FSA will cease to exist in its current form;
- a new prudential regulator, which will operate as a subsidiary of the Bank of England, will be created that will carry out the prudential regulation of financial firms in the UK, including banks, investment banks, building societies and insurance companies;
- an independent Financial Policy committee at the Bank of England will be created that will have the tools and the responsibility to look across the economy at the macro issues that may threaten economic and financial stability and take effective action in response; and
- a powerful new Consumer Protection and Markets Authority will be established.

In addition, on 22 June 2010, the Chancellor of the Exchequer announced that the new coalition government will introduce a bank levy from 1 January 2011. The levy will apply to UK banking groups, building societies and the operations of non-UK banks in the UK, but only to the extent that the relevant aggregate liabilities (subiect to certain exclusions, including for Tier 1 capital, insured retail deposits and repos secured on sovereign debt) of such institutions amount to £20 billion or more. It is proposed that the levy will be set at 0.07% of the relevant liabilities and it is expected to raise over £2 billion annually. There will, however, be a lower rate for the levy of 0.04% in 2011, and a reduced rate for longer-maturity wholesale funding (i.e. with greater than one year to maturity) at half the main rate. Certain as yet unannounced anti-avoidance provisions will be introduced. Final details of the bank levy will be announced after a consultation period. It was also announced that alongside the lndependent Commission on Banking's review of the UK banking sector, the new coalition governrnent would consult on a remuneration disclosure scheme and will also look into the costs and benefits of a "Financial Activities Tax on profits and remuneration".

At this point it is impossible to predict how and the extent to which the foregoing recently announced changes will impact on our operations, business results, financial condition or prospects. Accordingly, we cannot assure that any changes to the existing regulatory regime arising from the implementation of any of the foregoing matters or any other regulatory changes that may be proposed will not have a material adverse effect on our operations, business, results, financial condition or prospects.

FORM OF THE COVERED BONDS

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

Bearer Covered Bonds

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

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

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

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

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

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

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

The following legend will appear on all Bearer Covered Bonds which have an original maturity of more than one year and on all receipts and interest coupons relating to such Bearer Covered Bonds:

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

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

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

Registered Covered Bonds

The Registered Covered Bonds of each Tranche offered and sold in reliance on Regulation S, which will be sold to non-US persons (as defined in Regulation S) outside the United States, will initially be represented by a global covered bond in registered form (a **Regulation S Global Covered Bond**). Prior to expiry of the Distribution Compliance Period (as defined in Regulation S) applicable to each Tranche of Covered Bonds, beneficial interests in a Regulation S Global Covered Bond may not be offered or sold to, or for the account or benefit of, a US person (as defined in Regulation S) save as otherwise provided in Condition 2 (Transfers of Registered Covered Bonds) and may not be held otherwise than through Euroclear or Clearstream, Luxembourg, and such Regulation S Global Covered Bond will bear a legend regarding such restrictions on transfer.

The Registered Covered Bonds of each Tranche may only be offered and sold in the United States or to US persons in private transactions (a) to "qualified institutional buyers" within the meaning of Rule 144A under the Securities Act (**QIBs**) or (b) to institutional "accredited investors" (as defined in Rule 501(a)(1), (2), (3) or (7) of Regulation D under the Securities Act) (**Institutional Accredited Investors** or **IAIs**) who agree to purchase the Covered Bonds for their own account and not with a view to the distribution thereof.

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

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

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

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

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

Interests in a Registered Global Covered Bond will be exchangeable (free of charge), in whole but not in part, for Registered Definitive Covered Bonds without receipts, interest coupons or talons attached only upon the occurrence of an Exchange Event. For these purposes, **Exchange Event** means that (a) in the case of Covered Bonds registered in the name of a nominee for DTC, either DTC has notified the Issuer that it is unwilling or unable to continue to act as depository for the Covered Bonds and no alternative clearing system is available or DTC has ceased to constitute a clearing agency registered under the Exchange Act, (b) in the case of Covered Bonds registered in the name of a nominee for a Common Depositary for Euroclear and Clearstream, Luxembourg, the Issuer has been notified that both Euroclear and Clearstream, Luxembourg have been closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or have announced an intention permanently to cease business or have in fact done so and no successor clearing system is available or (c) the Issuer has or will become subject to adverse tax consequences which would not be suffered were the Covered Bonds represented by the Registered Global Covered Bond in definitive form. The Issuer will promptly give notice to holders of the Covered Bonds of each Series of Registered Global Covered Bonds in accordance with Condition 13 (Notices) if an Exchange Event occurs. In the event of the occurrence of an Exchange Event, DTC, Euroclear and/or Clearstream,

Luxembourg (acting on the instructions of any registered holder of an interest in such Registered Global Covered Bond) may give notice to the Registrar requesting exchange and, in the event of the occurrence of an Exchange Event as described in (c) above, the Issuer may also give notice to the Registrar requesting exchange. Any such exchange shall occur not later than ten days after the date of receipt of the first relevant notice by the Registrar.

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

Transfer of Interests

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

General

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

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

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

FORM OF FINAL TERMS

Set out below is the form of Final Terms which, subject to any necessary amendment, will be completed for each Tranche of Covered Bonds issued under the Programme.

[Date]

Nationwide Building Society

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

The Programme has been registered and notice of these Covered Bonds [has been/will be] made, under the Regulated Covered Bonds Regulations 2008 (as amended) (SI 2008/346).

PART A – CONTRACTUAL TERMS

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions set forth in the Base Prospectus dated 3 July 2009 which constitutes a base prospectus for the purposes of the Prospectus Directive (Directive 2003/71/EC) (the **Prospectus Directive**). This document constitutes the Final Terms of the Covered Bonds described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with such Base Prospectus. Full information on the Issuer, the LLP and the offer of the Covered Bonds is only available on the basis of the combination of these Final Terms and the Base Prospectus. The Base Prospectus is available for viewing during normal business hours at the registered office of the Issuer and copies may be obtained from the London office of the [Agent].

The following alternative language applies if the first tranche of an issue which is being increased was issued under a base prospectus with an earlier date.

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions (the **Conditions**) set forth in the Base Prospectus dated [original date]. This document constitutes the Final Terms of the Covered Bonds described herein for the purposes of Article 5.4 of the Prospectus Directive (Directive 2003/71/EC) (the **Prospectus Directive**) and must be read in conjunction with the Base Prospectus dated [current date], which constitutes a base prospectus for the purposes of the Prospectus Directive, save in respect of the Conditions which are extracted from the Base Prospectus dated [original date] and are attached hereto. Full information on the Issuer, the LLP and the offer of the Covered Bonds is only available on the basis of the combination of these Final Terms and the Base Prospectus dated [original date] and [current date]. The Base Prospectuses are available for viewing during normal business hours at the registered office of the Issuer and copies may be obtained from the London office of the [Agent].

[*Include whichever of the following apply or specify as "Not Applicable" (N/A). Note that the numbering should remain as set out below, even if "Not Applicable" is indicated for individual paragraphs or subparagraphs. Italics denote guidance for completing the Final Terms.*]

[*When completing any final terms, or adding any other final terms or information including final terms at items [10, 11, 17, 18, 19 or 30] of Part A or in relation to disclosure relating to the interests of natural and legal persons involved in the issue/offer in Part B consideration should be given as to whether such terms or information constitute "significant new factors" and consequently trigger the need for a supplement to the Base Prospectus under Article 16 of the Prospectus Directive.*]

2.	(a)	Issuer:	Nationwide Building Society
	(b)	Guarantor:	Nationwide Covered Bonds LLP
3.	(a)	Series Number:	[●]
	(b)	Tranche Number:	[●] *(If fungible with an existing Series, details of that Series, including the date on which the Covered Bonds become fungible)*
4.	Specified Currency or Currencies:		[●]
5.	Aggregate Nominal Amount of Covered Bonds:		
	(a)	Series:	[●]
	(b)	Tranche:	[●]
6.	Issue Price:		[●]% of the Aggregate Nominal Amount [plus accrued interest from [insert date] (if applicable)]
7.	(a)	Specified Denominations: (*in the case of Registered Covered Bonds, this means the minimum integral amount in which transfers can be mode*)[2]	*(N.B. The minimum denomination of each Covered Bond admitted to trading on a regulated exchange in the European Economic Area or offered to the public in a Member State of the European Economic Area in circumstances which would otherwise require the publication of a prospectus under the Prospectus Directive is €50,000 (or, if the Covered Bonds are denominated in a currency other than euro, the equivalent amount in such currency) or such other higher amount as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the relevant Specified Currency.)* *[N.B. If the specified denomination is expressed to be €50,000 or its equivalent and multiples of a lower principal amount (for example €1,000), insert the following:* *"€50,000 and integral multiples of [€1,000] in excess thereof up to and including [€99,000]. No notes in definitive form will be issued with a denomination above [€99,000]."]*
	(b)	Calculation Amount: (*Applicable to Covered Bonds in definitive form*)	*(If only one Specified Denomination, insert the Specified Denomination. If more than one Specified Denomination, insert the highest common factor.*

			N.B. There must be a common factor in the case of two or more Specified Denominations.)
8.	(a)	Issue Date:	[●]
	(b)	Interest Commencement Date:	*[Specify Date/Not Applicable]*
9.	(a)	Final Maturity Date:	*(Fixed rate - specify date/Floating rate* - Interest Payment Date falling in or nearest to [specify month and year])
	(b)	Extended Due for Payment Date of Guaranteed Amounts corresponding to the Final Redemption Amount under the Covered Bond Guarantee:	[*Fixed rate - specify date/Floating rate* - Interest Payment Date falling in or nearest to [*specify month* and year; *in each case falling [one year] after the Final Maturity Date*]]
10.	Interest Basis:		[[●]% Fixed Rate] [[LIBOR/EURIBOR] [●]% Floating Rate] [Zero Coupon] [Index Linked Interest] [Dual Currency Interest] [Credit Linked Interest] [Equity Linked Interest] [*specify other*] (further particulars specified below)
11.	Redemption/Payment Basis:		[Redemption at par] [Index Linked Redemption] [Dual Currency Redemption] [Partly Paid] [Instalment] [Hard Bullet Covered Bond] [*specify other*]
12.	Change of Interest Basis or Redemption/Payment Basis:		[*Specify details of any provision for change* of *Covered Bonds into another Interest Basis or Redemption/Payment Basis*]

13.	Call Options:		*[Issuer Call]* *[Further particulars specified below]*
14.	(a)	Status of the Covered Bonds:	*Senior*
	(b)	Status of the Guarantee:	*Senior*
	(c)	[Date [Board] approval for issuance of Covered Bonds [and Guarantee] obtained:	[●] [and [●], respectively]] *(N.B. Only relevant where Board (or similar) authorisation is required for the particular tranche of Covered Bonds or related Guarantee)]*
15.	Method of distribution:		[Syndicated/Non-syndicated]

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE[2]

16.	Fixed Rate Covered Bond Provisions:		[Applicable/Not Applicable] (*if not applicable, delete the remaining subparagraphs of this paragraph)*
	(a)	Fixed Rate(s) of Interest:	[●]% per annum [payable [annually/semi-annually/quarterly/monthly/other (*specify*)] in arrear] (*If payable other than annually, consider amending Condition 4 (*Interest*)*)
	(b)	Interest Payment Date(s):	[●] in each year [adjusted in accordance with [specify Business Day Convention and any applicable Business Centre(s) for the definition of "Business Day"]/not adjusted] ((*NB*: *This will need to be amended in the case of long or short coupons)*
	(c)	Fixed Coupon Amount(s):	[●] per Calculation Amount
	(d)	Broken Amount(s): (*Applicable to Covered Bonds in definitive form*)	[●] per Calculation Amount, payable on the Interest Payment Date falling [in/on] [●]
	(e)	Day Count Fraction:	[30/360 or Actual/Actual ((ICMA)/(ISDA)) or *specify other*]
	(f)	Determination Date(s):	[[●] in each year [*Insert regular interest payment dates, ignoring issue date or maturity date in the case of a long or short first or last coupon* *NB: This will need to be amended in the case of regular interest payment dates which are not of equal duration.*

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

			NB: Only relevant where Day Count Fraction is Actual/Actual (ICMA)]
	(g)	Other terms relating to the method of calculating interest for Fixed Rate Covered Bonds:	[Not Applicable/*Give details*]
17.	Floating Rate Covered Bond Provisions:		[Applicable/Not Applicable] *If not applicable, delete the remaining subparagraphs of this paragraph*)
	(a)	Interest Period(s):	[●]
	(b)	Specified Interest Payment Date(s):	[●]
	(c)	First Interest Payment Date:	[●]
	(d)	Business Day Convention:	[Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/*specify other*]
	(e)	Business Centre(s):	[●]
	(f)	Manner in which the Rate(s) of Interest is/are to be determined:	[Screen Rate Determination/ISDA Determination/ *specify other*]
	(g)	Party responsible for calculating the Rate(s) of Interest and/or Interest Amount (if not the [Agent]):	[●]
	(h)	Screen Rate Determination:	
		– Reference Rate:	[●] *(Either LIBOR, EURIBOR or other, although additional information is required if other- including amendment to fallback provisions in the Agency Agreement)*
		– Interest Determination Date(s):	[●] (*Second day on which commercial banks are open for general business (including dealings in foreign currency deposits) in London prior to the start of each Interest Period if LIBOR (other than Sterling or euro LIBOR), first day of each Interest Period if Sterling LIBOR and the second day on which the TARGET System is open prior to the start of each Interest Period if EURIBOR or euro LIBOR*) *NB: Specify the Interest Determination Date(s) up to and including the Extended Due for Payment Date,*

			if applicable
		– Relevant Screen Page:	[●] *(In the case of EURIBOR, if not Reuters EURIBOR01 ensure it is a page which shows a composite rate or amend the fallback provisions appropriately)*
	(i)	ISDA Determination:	
		Floating Rate Option:	[●]
		Designated Maturity:	[●]
		Reset Date:	[●]
	(j)	Margin(s):	[+/-] [●]% per annum.
	(k)	Minimum Rate of Interest:	[●]% per annum
	(l)	Maximum Rate of Interest:	[[●]% per annum]
	(m)	Day Count Fraction:	[Actual/365 Actual/365 (Fixed) Actual/365 (Sterling) Actual/360 30/360 30E/360 Other]
	(n)	Fall back provisions, rounding provisions, denominator and any other terms relating to the method of calculating interest on Floating Rate Covered Bonds, if different from those set out in these Conditions:	[●]
18.	Zero Coupon Covered Bond Provisions:[3]		[Applicable/Not Applicable] (*If not applicable, delete the remaining subparagraphs of this paragraph)*
	(a)	[Amortisation/Accrual] Yield:	[●]% per annum
	(b)	Reference Price:	[●]

[3] Zero Coupon Covered Bonds not to be issued with an Extended Due for Payment Date unless otherwise agreed with the Dealers and the Bond Trustee

	(c)	Any other formula/basis of determining amount payable:	[●]
19.	Index Linked Interest Covered Bond[4]/other variable-linked interest Covered Bond Provisions:		[Applicable/Not Applicable] (*If not applicable, delete the remaining subparagraphs of this paragraph)*
	(a)	Index/Formula/Other variable:	[give or annex details]
	(b)	Party responsible for calculating the Rate(s) of Interest and/or Interest Amount(s) (if not the [Agent]):	[●]
	(c)	Provisions for determining Coupon where calculated by reference to Index and/or Formula and/or other variable:	[●]
	(d)	Determination Date(s):	[●]
	(e)	Provisions for determining Coupon where calculation by reference to Index and/or Formula and/or other variable is impossible or impracticable or otherwise disrupted:	[●]
	(f)	Market disruption and adjustment rules:	[●]
	(g)	Interest or calculation period(s):	[●]
	(h)	Specified Interest Payment Dates:	[●]
	(i)	Business Day Convention:	[Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/*specify other*]
	(j)	Business Centre(s):	[●]
	(k)	Maximum Rate/Amount of Interest:	[●]% per annum
	(l)	Minimum Rate/Amount of Interest:	[●]% per annum
	(m)	Day Count Fraction:	[●]
20.	Dual Currency Covered Bond Provisions:		[Applicable/Not Applicable] *(If not applicable, delete the remaining subparagraphs of this paragraph)*
	(a)	Rate of Exchange/method of calculating Rate of Exchange:	[*give details*]

[4] No Index Linked Covered Bonds will be issued except following an amendment of the Programme by way of supplementary prospectus

	(b)	Party, if any, responsible for calculating the principal and/or interest due (if not the [Agent]):	[●]
	(c)	Provisions applicable where calculation by reference to Rate of Exchange impossible or impracticable:	[●]
	(d)	Person at whose option Specified Currency(ies) is/are payable:	[●]

PROVISIONS RELATING TO REDEMPTION BY THE ISSUER

21.	Call Option:		[Applicable/Not Applicable] (*If not applicable, delete the remaining sub- paragraphs of this paragraph*)
	(a)	Optional Redemption Date(s):	[●] *NB: Optional Redemption Dates must be Interest Payment Dates unless otherwise agreed with the Dealers and the Bond Trustee*
	(b)	Optional Redemption Amount of each Covered Bond and method, if any, of calculation of such amount(s):	[●] per Calculation Amount
	(c)	If redeemable in part:	
		(i) Minimum Redemption Amount:	[●] per Calculation Amount
		(ii) Higher Redemption Amount:	[●] per Calculation Amount
	(d)	Notice period:	[●] *(N.B. If setting notice periods which are different to those provided in the Conditions, the Issuer is advised to consider the practicalities of distribution of information through intermediaries, for example, clearing systems and custodians, as well as any other notice requirements which may apply, for example, as between the Issuer and the Principal Paying Agent or Bond Trustee)*
22.	Final Redemption Amount of each Covered Bond:		[[●] per Calculation Amount/*specify other*/see Appendix] *[N.B. If the Final Redemption Amount is other than 100% of the nominal value, the Covered Bonds will be derivative securities for the purposes of the Prospectus Directive and the requirements of Annex XII to the Prospectus Directive Regulation will*

apply. This proforma has been annotated to indicate where the key additional requirements of Annex XII are dealt with.]

In cases where the Final Redemption Amount is Index-Linked or other variable-linked:

(a)	Index/Formula/variable:	[*give or annex details*]
(b)	Party responsible for calculating the Final Redemption Amount (if not the [Agent]):	[●]
(c)	Provisions for determining Final Redemption Amount where calculated by reference to Index and/or Formula and/or other variable:	[●]
(d)	Determination Date(s):	[●]
(e)	Provisions for determining Final Redemption Amount where calculation by reference to Index and/or Formula and/or other variable is impossible or impracticable or otherwise disrupted:	[●]
(f)	Payment Date:	[●]
(g)	Minimum Final Redemption Amount:	[●] per Calculation Amount
(h)	Maximum Final Redemption Amount:	[●] per Calculation Amount
(i)	Exercise Price or Final Reference Price:	[●]

23. Early Redemption Amount(s) per Calculation Amount payable on redemption for taxation reasons, on acceleration following an Issuer Event of Default or an LLP Event of Default and/or the method of calculating the same (if required or if different from that set out in Condition 6.5 (Early Redemption Amounts)): *(N.B. If the Final Redemption Amount is other than 100% of the nominal value the Covered Bonds will be derivative securities for the purposes of the Prospectus Directive and the requirements of Annex XII to the Prospectus Directive Regulation will apply).*

GENERAL PROVISIONS APPLICABLE TO THE COVERED BONDS

24. Form of Covered Bonds: [Bearer Covered Bonds:

[Temporary Global Covered Bond exchangeable for a Permanent Global Covered Bond which is exchangeable for Bearer Definitive Covered Bonds in definitive form only after an Exchange Event[/on

		not less than 60 days' notice] [Temporary Global Covered Bond exchangeable for Bearer Definitive Covered Bonds only after an Exchange Event] [Permanent Global Covered Bond exchangeable for Bearer Definitive Covered Bonds in definitive form only after an Exchange Event[/on not less than 60 days' notice]] *(N.B. The exchange upon notice/at any time options should not be expressed to be applicable if the Specified Denomination of the Covered Bonds in paragraph 6 includes language substantially to the following effect: "[€50,000] and integral multiples of [€1,000] in excess thereof up to and including [€99,000]. Furthermore, such specified denomination construction is not permitted in relation to any issue of Covered Bonds which are to be represented on issue by a Temporary Global Covered Bond exchangeable for Definitive Covered Bonds.)* *ISSUE BY A TEMPORARY GLOBAL NOTE EXCHANGEABLE FOR DEFINITIVE NOTES* [Registered Covered Bonds: Regulation S Global Covered Bond (US$ [●] nominal amount) registered in the name of a nominee for [DTC/a Common Depositary for Euroclear and Clearstream, Luxembourg]/Rule 144A Global Covered Bond (US$[●] nominal amount) registered in the name of a nominee for [DTC/a Common Depositary for Euroclear and Clearstream, Luxembourg]/Definitive IAI Registered Covered Bond (*specify nominal amounts*)]
25.	New Global Covered Bond:	[Yes] [No]
26.	Financial Centre(s) or other special provisions relating to payment dates:	[Not Applicable/give details] *(Note that this item relates to the place of payment and not Interest Period end dates to which items 15(ii), 16(ii) and 18(vii) relate)*
27.	Talons for future Coupons or Receipts to be attached to Bearer Definitive Covered Bonds (and dates on which such Talons mature):	[Yes/No. *If yes, give details*]
28.	Details relating to Partly Paid Covered Bonds: amount of each payment comprising the Issue Price and date on which each	[Not Applicable/give *details. N.B. a new form of Temporary Global Covered Bond and/or Permanent Global Covered Bond may be required for Partly*

	payment is to be made [and consequences (if any) of failure to pay, including any right of the Issuer to forfeit the Covered Bonds and interest due on late payment]:		*Paid issues*]
29.	Details relating to Instalment Covered Bonds:		
	(a)	Instalment Amount(s):	[Not Applicable/*give details*]
	(b)	Instalment Date(s):	[Not Applicable/*give details*]
30.	Redenomination, renominalisation and reconventioning provisions:		[Not Applicable/The provisions [in Condition [●] apply]
31.	Other final terms:		[Not Applicable/give *details]* *(When adding any other final terms consideration should be given as to whether such terms constitute a "significant new factor" and consequently trigger the need for a supplement to the Base Prospectus under Article 16 of the Prospectus Directive.)*
32.	Additional US Federal Income Tax Considerations:		[Not Applicable/give *details*]

DISTRIBUTION

33.	(a)	If syndicated, names of Managers:	[Not Applicable/give *names, addresses and underwriting commitments*] [*Include names and addresses of entities agreeing to underwrite the issue on a firm commitment basis and names and addresses of the entities agreeing to place the issue without a firm commitment or on a "best efforts" basis if such entities are not the same as the Managers.*]
	(b)	Date of [Subscription] Agreement:	[●]
	(c)	Stabilising Manager (if any):	[Not Applicable/give *name*]
34.	If non-syndicated, name and address of Dealer:		[●]
35.	US Selling Restrictions:		[Reg. S Compliance Category; TEFRA D/TEFRA rules not applicable]
36.	Total commission and concession:		[●]% of the Aggregate Nominal Amount
37.	Non-exempt Offer:		Not Applicable
38.	Additional selling restrictions:		[Not Applicable/give *details*]

PURPOSE OF FINAL TERMS

These Final Terms comprise the final terms required for issue and admission to trading on the London Stock Exchange of the Covered Bonds described herein pursuant to the €45 billion Global Covered Bond Programme of Nationwide Building Society.

RESPONSIBILITY

The Issuer and the LLP accept responsibility for the information contained in these Final Terms. *[[(Relevant third party information)]* has been extracted from *[(specify source)]*. Each of the Issuer and the LLP confirms that such information has been accurately reproduced and that, so far as it is aware, and is able to ascertain from information published by the Building Societies Association, no facts have been omitted which would render the reproduced information inaccurate or misleading.]

PART B – OTHER INFORMATION

39. LISTING

(a)	Listing:	[London/other (specify)/None]
(b)	Admission to trading:	Application has been made for the Covered Bonds to be admitted to trading [●].
(c)	Estimate of total expenses related to admission to trading: [to be disclosed in final terms]:	[ ]

40. RATINGS

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

(The above disclosure should reflect the rating allocated to Covered Bonds of the type being issued under the Programme generally or, where the issue has been specifically rated, that rating.)

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

[Save as discussed in *"Subscription and Sale and Transfer and Selling Restrictions",* so far as the Issuer and the LLP are aware, no person involved in the issue of the Covered Bonds has an interest material to the offer. *–Amend as appropriate if there are other interests*]

42. REASONS FOR THE OFFER, ESTIMATED NET PROCEEDS AND TOTAL EXPENSES:

(a)	[Reasons for the offer:]	[●] (See *"Use of Proceeds" wording in Prospectus - if reasons for offer different from making profit and/or hedging certain risks will need to include those reasons here.*)
(b)	[Estimated net proceeds:]	[●] (*If proceeds are intended for more than one use will need to split out and present in order of priority. If proceeds insufficient to fund all proposed uses state amount and sources of other funding.*)
(c)	[Estimated total expenses:]	[●] (*Expenses are required to be broken down into each principal intended "use" and presented in order of priority of such "uses".*)

(*If the Covered Bonds are derivative securities to which Annex XII of the Prospectus Directive Regulation applies it is only necessary to include disclosure of net proceeds and total expenses at (b) and (c) above where disclosure is included at (a) above.*)

43. [**Fixed Rate Covered Bonds only – YIELD**

Indication of yield: [●]

Calculated as [*include details of method of calculation in summary form*] on Issue Date

The yield is calculated at the Issue Date on the basis of the Issue Price. It is not an indication of future yield.]

44. [***Index-Linked or other variable-linked Covered Bonds only*** **– POST-ISSUANCE PERFORMANCE OF INDEX/FORMULA/OTHER VARIABLE AND OTHER INFORMATION CONCERNING THE UNDERLYING**

Need to include details of where past and future performance and volatility of the index/formula/other variable can be obtained. Where the underlying is an index need to include the name of the index and a description if composed by the Issuer and if the index is not composed by the Issuer need to include details of where the information about the index can be obtained. Where the underlying is not an index need to include equivalent information. Include other information concerning the underlying required by Paragraph 4.2 of Annex XII of the Prospectus Directive Regulation.]

[*(When completing this paragraph, consideration should be given as to whether such matters described constitute "significant new factors" and consequently trigger the need for a supplement to the Prospectus under Article 16 of the Prospectus Directive.)*]

The Issuer [intends to provide post-issuance information] [specify what information will be reported and where it can be obtained]] [does not intend to provide post-issuance information].

45. [***Dual Currency Covered Bonds only*** **– PERFORMANCE OF RATE[S] OF EXCHANGE**

Need to include details of where past and future performance and volatility of the relevant rate[s] can be obtained.]*

[*(When completing this paragraph, consideration should be given as to whether such matters described constitute "significant new factors" and consequently trigger the need for a supplement to the Prospectus under Article 16 of the Prospectus Directive.)*]

46. OPERATIONAL INFORMATION

(a) Bearer Global Covered Bonds intended to be held in a manner which would allow Eurosystem eligibility: [Yes] [No]
[Note that the designation "yes" simply means the Bearer Global Covered Bonds are intended upon issue to be deposited with Euroclear or Clearstream, Luxembourg as Common Safekeeper and does not

		necessarily mean that the Bearer Global Covered Bonds will be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem either upon issue or at any or all times during their life. Such recognition will depend upon satisfaction of the Eurosystem eligibility criteria.] [*include this text if "yes" selected in which case the Bearer Global Covered Bonds must be issued in NGN form*]
(b)	ISIN Code:	[●]
(c)	Common Code:	[●]
(d)	[Any clearing system(s) other than DTC, Euroclear or Clearstream, Luxembourg and the relevant identification number(s):]	[Not Applicable/give *name(s) and number(s)*]
(e)	[Delivery:]	Delivery [against/free of] payment
(f)	[Names and addresses of initial Paying Agents:]	[●]
(g)	[Names and addresses of additional Paying Agent(s) (if any):	[●]

Signed on behalf of the Issuer:

By: _____
Duly authorised

Signed on behalf of the LLP:

By: _____
Duly authorised

TERMS AND CONDITIONS OF THE COVERED BONDS

The following are the Terms and Conditions of the Covered Bonds which will be incorporated by reference into each Global Covered Bond (as defined below) and each Definitive Covered Bond, in the latter case only if permitted by the relevant stock exchange or other relevant authority (if any) and agreed by the Issuer and the relevant Dealer(s) at the time of issue but, if not so permitted and agreed, such Definitive Covered Bond will have endorsed thereon or attached thereto such Terms and Conditions. The applicable Final Terms in relation to any Tranche of Covered Bonds may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with the following Terms and Conditions, replace or modify the following Terms and Conditions for the purpose of such Covered Bonds. The applicable Final Terms (or the relevant provisions thereof) will be endorsed upon, or attached to, each Global Covered Bond and Definitive Covered Bond.

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

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

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

(i) any Global Covered Bond;

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

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

The Covered Bonds, the Receipts (as defined below) and the Coupons (as defined below) have the benefit of an agency agreement dated the Initial Programme Date and amended and restated on or about 25 June 2007 (such agency agreement as further amended and/or supplemented and/or restated from time to time, the **Agency Agreement**) and made between the Issuer, the LLP, the Bond Trustee, the Security Trustee and Citibank, N.A. London Branch, as issuing and principal paying agent and agent bank (in such capacity, the **Principal Paying Agent**, which expression shall include any successor principal paying agent) and the other paying agents named therein (together with the Principal Paying Agent, the **Paying Agents**, which expression shall include any additional or successor paying agents), Citibank, N.A. London Branch as exchange agent (in such capacity, the **Exchange Agent**, which expression shall include any successor exchange agent), Citibank, N.A. London Branch as registrar (in such capacity, the **Registrar**, which expression shall include any successor registrar) and as transfer agent (in such capacity, a **Transfer Agent** and together with the Registrar, the **Transfer Agents**, which expression shall include any additional or successor transfer agents. As used herein, **Agents** shall mean the Paying Agents and the Exchange Agent and the Transfer Agents).

Interest-bearing Bearer Definitive Covered Bonds have (unless otherwise indicated in the applicable Final Terms) interest coupons (**Coupons**) and, if indicated in the applicable Final Terms, talons for further Coupons (**Talons**) attached on issue. Any reference herein to Coupons or coupons shall, unless the context otherwise requires, be deemed to include a reference to Talons or talons. Bearer Definitive Covered Bonds repayable in instalments have receipts (**Receipts**) for the payment of the instalments of principal (other than the final instalment) attached on issue. Registered Covered Bonds and Global Covered Bonds do not have Receipts, Coupons or Talons attached on issue.

The Final Terms for this Covered Bond (or the relevant provisions thereof) are attached to or endorsed on this Covered Bond and supplements these Terms and Conditions (the **Conditions**) and may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with the Conditions, replace or modify the Conditions for the purposes of this Covered Bond. References to the **Final Terms** are to the Final Terms (or the relevant provisions thereof) attached to or endorsed on this Covered Bond.

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

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

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

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

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

Copies of the Trust Deed, the Deed of Charge, the Master Definitions and Construction Agreement (as defined below), the Agency Agreement and each of the other Transaction Documents are available for inspection during normal business hours at the registered office for the time being of the Bond Trustee being as at the date of this Base Prospectus at Citigroup Centre, Canada Square, Canary Wharf, London E14 5LB and at the specified office of each of the Paying Agents. Copies of the applicable Final Terms for all Covered Bonds of each Series (including in relation to unlisted Covered Bonds of any Series) are obtainable during normal business hours at the specified office of each of the Paying Agents and any holder of the Covered Bonds must produce evidence satisfactory to the Issuer and the Bond Trustee or, as the case may be, the relevant Paying Agent as to its holding of Covered Bonds and identity. The holders of the Covered Bonds, the Receiptholders and the Couponholders are deemed to have notice of, are bound by, and are entitled to the benefit of, all the provisions of, and definitions contained in, the Trust Deed, the Deed of

Charge, the Master Definitions and Construction Agreement, the Agency Agreement, each of the other Transaction Documents and the applicable Final Terms which are applicable to them and to have notice of each set of Final Terms relating to each other Series.

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

1. FORM, DENOMINATION AND TITLE

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

This Covered Bond may be a Fixed Rate Covered Bond, a Floating Rate Covered Bond, a Zero Coupon Covered Bond, an Index Linked Interest Covered Bond, a Dual Currency Interest Covered Bond or a combination of any of the foregoing, depending upon the Interest Basis shown in the applicable Final Terms, and subject to, where this Coupon Bond is a Zero Coupon Covered Bond, an Index Linked Interest Covered Bond, a Dual Currency Interest Covered Bond or any combination of the foregoing, confirmation from the Rating Agencies that the then current ratings of any outstanding Series of Covered Bonds will not be adversely affected by the issuance of this Covered Bond.

This Covered Bond may be an Index Linked Redemption Covered Bond, an Instalment Covered Bond, a Dual Currency Redemption Covered Bond or a combination of any of the foregoing, depending upon the Redemption/Payment Basis shown in the applicable Final Terms and subject to, where this Covered Bond is an Index Linked Redemption Covered Bond, an Instalment Covered Bond, a Dual Currency Redemption Covered Bond or any combination of the foregoing, confirmation from the Rating Agencies that the then current rating of any outstanding Series of Covered Bonds will not be adversely affected by the issuance of this Covered Bond.

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

Bearer Definitive Covered Bonds are issued with Receipts, unless they are not Instalment Covered Bonds in which case references to Receipts and Receiptholders in these Conditions are not applicable.

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

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

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

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

2. TRANSFERS OF REGISTERED COVERED BONDS

2.1 Transfers of interests in Registered Global Covered Bonds

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

2.2 Transfers of Registered Covered Bonds in definitive form

Subject as provided in Conditions 2.5, 2.6 and 2.7 below, upon the terms and subject to the conditions set forth in the Agency Agreement, a Registered Covered Bond in definitive form may be transferred in whole or in part (in the authorised denominations set out in the applicable Final Terms). In order to effect any such transfer (a) the holder or holders must (i) surrender the Registered Covered Bond for registration of the transfer of the Registered Covered Bond (or the relevant part of the Registered Covered Bond) at the specified office of the Registrar or any Transfer Agent, with the form of transfer thereon duly executed by the holder or holders thereof or his or their attorney or attorneys duly authorised in writing and (ii) complete and deposit such other certifications as may be required by the Registrar or, as the case may be, the relevant Transfer Agent and (b) the Registrar or, as the case may be, the relevant Transfer Agent must, after due and careful enquiry, be satisfied with the documents of title and the identity of the person making the request. Any such transfer will be subject to such reasonable regulations as the Issuer, the Bond Trustee and the Registrar may from time to time prescribe (the initial such regulations being set out in Schedule 6 to the Agency Agreement). Subject as provided above, the Registrar or, as the case may be, the relevant Transfer Agent will, within three business days (being for this purpose a day on which banks are open for business in the city where the specified office of the Registrar or, as the case may be, the relevant Transfer Agent is located) of the request (or such longer period as may be required to comply with any applicable fiscal or other laws or regulations), authenticate and deliver, or procure the authentication and delivery of, at its specified office to the transferee or (at the risk of the transferee) send by uninsured mail, to such address as the transferee may request, a new Registered Covered Bond in definitive form of a like aggregate nominal amount to the Registered Covered Bond (or the relevant part of the Registered Covered Bond) transferred. In the case of the transfer of part only of a Registered Covered Bond in definitive form, a new Registered Covered Bond in definitive form in respect of the balance of the Registered Covered Bond not transferred will be so authenticated and delivered or (at the risk of the transferor) sent by uninsured mail to the address specified by the transferor.

2.3 Registration of transfer upon partial redemption

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

2.4 Costs of registration

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

2.5 Transfers of interests in Regulation S Global Covered Bonds

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

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

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

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

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

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

2.6 Transfers of interests in Legended Covered Bonds

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

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

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

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

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

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

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

Covered Bonds transferred by Institutional Accredited Investors to QIBs pursuant to Rule 144A or outside the United States pursuant to Regulation S will be eligible to be held by such QIBs or

non-US investors through DTC, Euroclear or Clearstream, Luxembourg, as appropriate, and the Registrar will arrange for any Covered Bonds which are the subject of such a transfer to be represented by the appropriate Registered Global Covered Bonds, where applicable.

Upon the transfer, exchange or replacement of Legended Covered Bonds, or upon specific request for removal of the legend therein, the Registrar shall deliver only Legended Covered Bonds or refuse to remove the Legend therein, as the case may be, unless there is delivered to the Issuer such satisfactory evidence as may reasonably be required by the Issuer, which may include an opinion of US counsel, that neither the Legend nor the restrictions on transfer set forth therein are required to ensure compliance with the provisions of the Securities Act.

2.7 Exchanges and transfers of Registered Covered Bonds generally

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

2.8 Definitions

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

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

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

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

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

Regulation S means Regulation S under the Securities Act;

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

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

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

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

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

3.1 Status of the Covered Bonds

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

3.2 Status of the Covered Bond Guarantee

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

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

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

4. INTEREST

4.1 Interest on Fixed Rate Covered Bonds

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

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

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

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

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

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

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

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

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

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

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

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

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

In these Conditions:

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

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

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

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

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

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

4.2 Interest on Floating Rate Covered Bonds and Index Linked Interest Covered Bonds

(a) *Interest Payment Dates*

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

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

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

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

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

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

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

(v) the **Modified Following Business Day Convention**, such Interest Payment Date shall be postponed to the next day which is a Business Day unless it would thereby fall into the next

calendar month, in which event such Interest Payment Date shall be brought forward to the immediately preceding Business Day; or

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

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

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

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

(b) *Rate of Interest*

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

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

Where ISDA Determination is specified in the applicable Final Terms as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period will be the relevant ISDA Rate plus or minus (as indicated in the applicable Final Terms) the Margin (if any). For the purposes of this subparagraph (i), **ISDA Rate** for an Interest Period means a rate equal to the Floating Rate that would be determined by the Principal Paying Agent or other person specified in the applicable Final Terms under an interest rate swap transaction if the Principal Paying Agent or that other person were acting as Calculation Agent for that swap transaction under the terms of an agreement incorporating the 2000 ISDA Definitions, as published by the International Swaps and Derivatives Association, Inc. and as amended and updated as at the Issue Date of the first Tranche of the Covered Bonds (the **ISDA Definitions**) and under which:

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

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

(C) the relevant Reset Date is either (a) if the applicable Floating Rate Option is based on the London inter-bank offered rate (**LIBOR**) or the Euro-zone inter-bank offered rate (**EURIBOR**) for a currency, the first day of that Interest Period, or (b) in any other case, as specified in the applicable Final Terms.

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

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

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

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

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

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

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

If the Reference Rate from time to time in respect of Floating Rate Covered Bonds is specified in the applicable Final Terms as being other than LIBOR or EURIBOR, the Rate of Interest in respect of such Covered Bonds will be determined as provided in the applicable Final Terms.

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

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

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

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

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

notify the Principal Paying Agent of the Rate of Interest for the relevant Interest Period as soon as practicable after calculating the same.

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

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

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

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

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

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

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

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

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

The Principal Paying Agent (in the case of Floating Rate Covered Bonds) and the Calculation Agent (in the case of Index Linked Interest Covered Bonds) will cause the Rate of Interest and each Interest Amount for each Interest Period and the relevant Interest Payment Date to be notified to the Issuer, the Bond Trustee and to any stock exchange or other relevant competent authority or quotation system on which the relevant Floating Rate Covered Bonds or Index Linked Interest Covered Bonds

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

(f) *Determination or Calculation by Bond Trustee*

If for any reason at any relevant time after the Issue Date, the Principal Paying Agent or, as the case may be, the Calculation Agent defaults in its obligation to determine the Rate of Interest or the Principal Paying Agent defaults in its obligation to calculate any Interest Amount in accordance with subparagraph (b)(i) or (ii) above or as otherwise specified in the applicable Final Terms, as the case may be, and in each case in accordance with paragraph (d) above, the Bond Trustee shall determine the Rate of Interest at such rate as, in its absolute discretion (having such regard as it shall think fit to the foregoing provisions of this Condition, but subject always to any Minimum Rate of Interest or Maximum Rate of Interest specified in the applicable Final Terms), it shall deem fair and reasonable in all the circumstances or, as the case may be, the Bond Trustee shall calculate the Interest Amount(s) in such manner as it shall deem fair and reasonable in all the circumstances and each such determination or calculation shall be deemed to have been made by the Principal Paying Agent or the Calculation Agent, as the case may be.

(g) *Certificates to be final*

All certificates, communications, opinions, determinations, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this Condition 4.2 (Interest on Floating Rate Covered Bonds and Index Linked Interest Covered Bonds), whether by the Principal Paying Agent or the Calculation Agent or the Bond Trustee shall (in the absence of wilful default, bad faith or manifest error) be binding on the Issuer, the LLP, the Principal Paying Agent, the Calculation Agent, the other Paying Agents, the Bond Trustee and all holders of the Covered Bonds, Receiptholders and Couponholders and (in the absence of wilful default or bad faith) no liability to the Issuer, the LLP, the holders of the Covered Bonds, the Receiptholders or the Couponholders shall attach to the Principal Paying Agent or the Calculation Agent or the Bond Trustee in connection with the exercise or non-exercise by it of its powers, duties and discretions pursuant to such provisions.

4.3 Interest on Dual Currency Interest Covered Bonds

In the case of Dual Currency Interest Covered Bonds where the rate or amount of interest falls to be determined by reference to an exchange rate, the rate or amount of interest shall be determined in the manner specified in the applicable Final Terms.

4.4 Interest on Partly Paid Covered Bonds

In the case of Partly Paid Covered Bonds (other than Partly Paid Covered Bonds which are Zero Coupon Covered Bonds), interest will accrue on the paid up nominal amount of such Covered Bonds or as otherwise specified in the applicable Final Terms.

4.5 Accrual of interest

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

5. PAYMENTS

5.1 Method of payment

Subject as provided below:

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

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

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

Payments will be subject in all cases to any fiscal or other laws and regulations applicable thereto in the place of payment in these Conditions, the Trust Deed, the Agency Agreement and the Final Terms, but without prejudice to the provisions of Condition 7 (Taxation). References to Specified Currency will include any successor currency under applicable law.

5.2 Presentation of Bearer Definitive Covered Bonds, Receipts and Coupons

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

Payments of instalments (if any) of principal other than the final instalment, will (subject as provided below) be made against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of the relevant Receipt in accordance with the preceding paragraph. Each Receipt must be presented for payment of the relevant instalment together with the Bearer Definitive Covered Bond to which it appertains. If any Bearer Definitive Covered Bond is redeemed or

becomes repayable prior to the stated maturity thereof, principal will be payable only on surrender of such Bearer Definitive Covered Bond together with all unmatured Receipts appertaining thereto. Receipts presented without the Bearer Definitive Covered Bond to which they appertain and unmatured Receipts do not constitute valid obligations of the Issuer or the LLP.

Upon the date on which any Bearer Definitive Covered Bond becomes due and repayable, unmatured Receipts (if any) relating thereto (whether or not attached) shall become void and no payment shall be made in respect thereof.

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

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

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

5.3 Payments in respect of Bearer Global Covered Bonds

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

5.4 Payments in respect of Registered Covered Bonds

Payments of principal (other than instalments of principal prior to the final instalment) in respect of each Registered Covered Bond (whether or not in global form) will be made against presentation and

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

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

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

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

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

5.5 General provisions applicable to payments

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

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

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

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

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

5.6 Payment Day

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

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

  (i) the relevant place of presentation;

  (ii) London; and

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

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

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

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

5.7 Interpretation of principal and interest

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

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

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

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

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

(e) in relation to Covered Bonds redeemable in instalments, the Instalment Amounts;

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

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

(h) in relation to Dual Currency Covered Bonds, the principal payable in any relevant Specified Currency; and

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

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

5.8 Redenomination

(a) *Redenomination*

Where redenomination is specified in the applicable Final Terms as being applicable, the Issuer may, without the consent of the Covered Bondholders, the Receiptholders and the Couponholders, on giving prior written notice to the Bond Trustee, the Security Trustee, the Agents (in the case of Registered Covered Bonds) the Registrar, Euroclear and Clearstream, Luxembourg and at least 30 days' prior notice to the Covered Bondholders in accordance with Condition 13 (Notices), elect that, with effect from the Redenomination Date specified in the notice, the Covered Bonds shall be

redenominated in euro. In relation to any Covered Bonds where the applicable Final Terms provide for a minimum Specified Denomination in the Specified Currency which is equivalent to at least euro 50,000 and which are admitted to trading on a regulated market in the European Economic Area, it shall be a term of any such article that the holder of any Covered Bonds held through Euroclear and/or Clearstream, Luxembourg and/or DTC must have credited to its securities account with the relevant clearing system a minimum balance of Covered Bonds of at least euro 50,000.

The election will have effect as follows:

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

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

(iii) if definitive Covered Bonds are required to be issued after the Redenomination Date, they shall be issued at the expense of the Issuer in the denominations of euro 50,000 and/or such higher amounts as the Agents may determine and notify to the Covered Bondholders and any remaining amounts less than euro 50,000 shall be redeemed by the Issuer and paid to the Covered Bondholders in euro in accordance with Condition 5 (Payments);

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

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

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

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

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

(b) *Definitions*

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

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

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

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

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

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

6. REDEMPTION AND PURCHASE

6.1 Final redemption

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

Without prejudice to Condition 9 (Events of Default and Enforcement), if an Extended Due for Payment Date is specified as applicable in the Final Terms for a Series of Covered Bonds and the Issuer has failed to pay the Final Redemption Amount on the Final Maturity Date specified in the Final Terms (or after expiry of the grace period set out in Condition 9.1(a)) and following the service of a Notice to Pay on the LLP by no later than the date falling one Business Day prior to the

Extension Determination Date the LLP has insufficient moneys available under the Guarantee Priority of Payments to pay the Guaranteed Amounts corresponding to the Final Redemption Amount in full in respect of the relevant Series of Covered Bonds on the date falling on the earlier of (a) the date which falls two Business Days after service of such Notice to Pay on the LLP or if later the Final Maturity Date (or, in each case, after the expiry of the grace period set out in Condition 9.2(a)) under the terms of the Covered Bond Guarantee or (b) the Extension Determination Date, then (subject as provided below) payment of the unpaid amount by the LLP under the Covered Bond Guarantee shall be deferred until the Extended Due for Payment Date, provided that any amount representing the Final Redemption Amount due and remaining unpaid on the earlier of (a) and (b) above may be paid by the LLP on any Interest Payment Date thereafter up to (and including) the relevant Extended Due for Payment Date.

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

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

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

For the purposes of these Conditions:

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

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

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

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

6.2 Redemption for taxation reasons

The Covered Bonds may be redeemed at the option of the Issuer in whole, but not in part, at any time (if this Covered Bond is neither a Floating Rate Covered Bond, an Index Linked Interest Covered Bond nor a Dual Currency Interest Covered Bond) or on any Interest Payment Date (if this Covered Bond is either a Floating Rate Covered Bond, an Index Linked Interest Covered Bond or a Dual Currency Interest Covered Bond), on giving not less than 30 nor more than 60 days' notice to the Bond Trustee and, in accordance with Condition 13 (Notices), the holders of the Covered Bonds (which notice shall be irrevocable), if the Issuer satisfies the Bond Trustee immediately before the giving of such notice that: (a) on the occasion of the next date for payment of interest, the Issuer is or will be required to pay additional amounts as provided in Condition 7 (Taxation) or (b) the Issuer will be required to account to any taxing authority in the United Kingdom for any amount (other than any tax withheld or deducted from interest payable on the Covered Bonds) calculated by reference to any amount payable in respect of the Covered Bonds, Receipts or Coupons, provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer would be obliged to pay such additional amounts were a payment in respect of the Covered Bonds then due. Covered Bonds redeemed pursuant to this Condition 6.2 (Redemption for taxation reasons) will be redeemed at their Early Redemption Amount referred to in Condition 6.5 below together (if appropriate) with interest accrued to (but excluding) the date of redemption.

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

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

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

6.4 Redemption due to illegality

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

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

6.5 Early Redemption Amounts

For the purpose of Conditions 6.2 above and 6.10 below and Condition 9 (Events of Default and Enforcement), each Covered Bond will be redeemed at its Early Redemption Amount calculated as follows:

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

(b) in the case of a Covered Bond (other than a Zero Coupon Covered Bond but including an Instalment Covered Bond or a Partly Paid Covered Bond) with a Final Redemption Amount which is or may be less or greater than the Issue Price or which is payable in a Specified Currency other than that in which the Covered Bond is denominated, at the amount specified in, or determined in the manner specified in, the applicable Final Terms or, if no such amount or manner is so specified in the applicable Final Terms, at its nominal amount; or

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

(i) the Reference Price; and

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

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

Where such calculation is to be made for a period which is not a whole number of years, it shall be made (a) in the case of a Zero Coupon Covered Bond payable in a Specified Currency other than euro, on the basis of a 360-day year consisting of 12 months of 30 days each or (b) in the case of a Zero Coupon Covered Bond payable in euro, on the basis of the actual number of days elapsed divided by 365 (or, if any of the days elapsed falls in a leap year, the sum of (x) the number of those days falling in a leap year divided by 366 and (y) the number of those days falling in a non leap year divided by 365) or (c) on such other calculation basis as may be specified in the applicable Final Terms.

6.6 Instalments

Instalment Covered Bonds will be redeemed in the Instalment Amounts and on the Instalment Dates. In the case of early redemption, the Early Redemption Amount will be determined pursuant to Condition 6.5 above.

6.7 Partly Paid Covered Bonds

Partly Paid Covered Bonds will be redeemed, whether at maturity, early redemption or otherwise, in accordance with the provisions of this Condition 6 (Redemption and Purchase) and the applicable Final Terms. In the case of early redemption, the Early Redemption Amount will be determined pursuant to Condition 6.5 above.

6.8 Purchases

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

6.9 Cancellation

All Covered Bonds which are redeemed will forthwith be cancelled (together with, in the case of Bearer Definitive Covered Bonds, all unmatured Receipts, Coupons and Talons attached thereto or surrendered therewith at the time of redemption). All Covered Bonds so cancelled and any Covered Bonds purchased and surrendered for cancellation pursuant to Condition 6.8 above and cancelled (together with, in the case of Bearer Definitive Covered Bonds, all unmatured Receipts, Coupons and Talons cancelled therewith) shall be forwarded to the Principal Paying Agent and cannot be held, reissued or resold.

6.10 Late payment on Zero Coupon Covered Bonds

If the amount payable in respect of any Zero Coupon Covered Bond upon redemption of such Zero Coupon Covered Bond pursuant to Conditions 6.1, 6.2 or 6.3 above or upon its becoming due and repayable as provided in Condition 9 (Events of Default and Enforcement) is improperly withheld or refused, the amount due and repayable in respect of such Zero Coupon Covered Bond shall be the amount calculated as provided in Condition 6.5(c) above as though the references therein to the date fixed for the redemption or the date upon which such Zero Coupon Covered Bond becomes due and payable were replaced by references to the date which is the earlier of:

(a) the date on which all amounts due in respect of such Zero Coupon Covered Bond have been paid; and

(b) the date on which the full amount of the moneys payable in respect of such Zero Coupon Covered Bonds has been received by the Principal Paying Agent or the Bond Trustee or the Registrar and notice to that effect has been given to the holders of the Covered Bonds either in accordance with Condition 13 (Notices) or individually.

6.11 Certification on redemption under Condition 6.2 and 6.4

Prior to the publication of any notice of redemption pursuant to Conditions 6.2 (Redemption for taxation reasons) and 6.4 (Redemption due to illegality), the Issuer shall deliver to the Bond Trustee a certificate signed by two Authorised Signatories (as defined in the Master Definitions and Construction Agreement) of the Issuer stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred and the Bond Trustee shall be entitled to accept the certificate as sufficient evidence of the satisfaction of the conditions precedent set out above, in which event it shall be conclusive and binding on all holders of the Covered Bonds, Receiptholders and Couponholders.

7. TAXATION

All payments of principal and interest (if any) in respect of the Covered Bonds, Receipts and Coupons by or on behalf of the Issuer or the LLP, as the case may be, will be made without withholding or deduction for or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature imposed or levied by or on behalf of the United Kingdom or any political sub-division thereof or by any authority therein or thereof having power to tax unless such withholding or deduction of such taxes, duties, assessments or governmental charges is required by law. In the event of a withholding or deduction being made by the Issuer in respect of a payment made by it, the Issuer will pay such additional amounts as shall be necessary in order that the net amounts received by the holders of the Covered Bonds, Receipts or Coupons after such withholding or deduction shall equal the respective amounts of principal and interest which would otherwise have been receivable in respect of the Covered Bonds, Receipts or Coupons, as the case may be, in the absence of such withholding or deduction; except that no such additional amounts shall be payable with respect to any Covered Bond, Receipt or Coupon presented for payment:

(a) in the United Kingdom; or

(b) by or on behalf of a holder who (a) is able to avoid such withholding or deduction by satisfying any statutory requirements or by making a declaration of non-residence or other claim for exemption to the relevant taxing authority but fails to do so; or (b) is liable for such taxes, duties, assessments or governmental charges in respect of such Covered Bonds, Receipts or Coupons (as the case may be) by reason of his having some connection with the United Kingdom other than merely by reason of the holding of such Covered Bonds, Receipts or Coupons; or

(c) more than 30 days after the Relevant Date (as defined below) except to the extent that the holder thereof would have been entitled to an additional amount on presenting the same for payment on the last day of such period of 30 days; or

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

(e) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC on the taxation of

savings income or any law implementing or complying with, or introduced in order to conform to, such Directive; or

(f) by or on behalf of a holder who would be able to avoid such withholding or deduction by presenting the relevant Covered Bond, Receipt or Coupon to another Paying Agent in a Member State of the European Union.

As used herein:

Relevant Date means the date on which such payment in respect of the Covered Bond, Receipt or Coupon first becomes due and payable, except that, if the full amount of the moneys payable on such date has not been duly received by the Bond Trustee, the Registrar or the Principal Paying Agent on or prior to such date, it means the date on which such moneys have been so received, notice to that effect having been given to the holders of the Covered Bonds in accordance with Condition 13 (Notices).

Should any payments made by the LLP under the Covered Bond Guarantee be made subject to any withholding or deduction on account of taxes or duties of whatever nature imposed or levied by or on account of the United Kingdom or any political sub-division thereof or by any authority therein or thereof having power to tax, the LLP will not be obliged to pay any additional amounts as a consequence.

8. PRESCRIPTION

The Covered Bonds (whether in bearer or registered form), Receipts and Coupons will become void unless presented for payment within 12 years (in the case of principal) and six years (in the case of interest) in each case from the Relevant Date (as defined in Condition 7 (Taxation)) therefore, subject in each case to the provisions of Condition 5 (Payments).

There shall not be included in any Coupon sheet issued on exchange of a Talon, any Coupon the claim for payment in respect of which would be void pursuant to this Condition or Condition 5 (Payments) or any Talon which would be void pursuant to Condition 5 (Payments).

9. EVENTS OF DEFAULT AND ENFORCEMENT

9.1 Issuer Events of Default

The Bond Trustee at its discretion may, and if so requested in writing by the holders of at least 25% of the aggregate Principal Amount Outstanding of the Covered Bonds (which for this purpose or the purpose of any Extraordinary Resolution (as defined in the Trust Deed) referred to in this Condition 9.1 (Issuer Events of Default) means the Covered Bonds of this Series together with the Covered Bonds of any other Series constituted by the Trust Deed) then outstanding as if they were a single Series (with the nominal amount of Covered Bonds not denominated in Sterling converted into Sterling at the relevant Covered Bond Swap Rate (as defined in the Master Definitions and Construction Agreement)) or if so directed by an Extraordinary Resolution of all the holders of the Covered Bonds shall, (but in the case of the happening of any of the events mentioned in subparagraphs (b) to (h) below, only if the Bond Trustee shall have certified in writing that such event is, in its opinion, materially prejudicial to the interests of the holders of the Covered Bonds of any Series) (subject in each case to being indemnified and/or secured to its satisfaction), give notice (an **Issuer Acceleration Notice**) in writing to the Issuer and the Issuer shall notify the FSA, pursuant to the RCB Regulations, that as against the Issuer (but not, for the avoidance of doubt, against the LLP under the Covered Bond Guarantee) each Covered Bond of each Series is, and each such Covered Bond shall thereupon immediately become, due and repayable at its Early Redemption

Amount together with accrued interest as provided in the Trust Deed if any of the following events (each an **Issuer Event of Default**) shall occur and be continuing:

(a) the Issuer fails to pay any principal or interest in respect of the Covered Bonds within seven days of the due date; or

(b) if the Issuer fails to perform or observe any obligations under the Covered Bonds, Receipts or Coupons of any Series, the Trust Deed or any other Transaction Document to which the Issuer is a party (other than the Programme Agreement and the Subscription Agreement) but excluding (i) any obligation of the Issuer to comply with the Asset Coverage Test or any representation or warranty given by the Issuer in respect of the Asset Coverage Test or (ii) any obligation of the Issuer which relates solely to its obligations under the RCB Regulations and/or the RCB Sourcebook and breach of which would not otherwise constitute a breach of the other terms of the Transaction Documents, and such failure continues for the period of 30 days (or such longer period as the Bond Trustee may permit) next following the service by the Bond Trustee on the Issuer of notice requiring the same to be remedied (except in circumstances where the Bond Trustee considers such failure to be incapable of remedy in which case no period of continuation will apply and no notice by the Bond Trustee will be required); or

(c) the Issuer or any Principal Subsidiary becomes insolvent or is unable to pay its debts as they mature or applies for or consents to or suffers the appointment of a liquidator or receiver or administrator or similar officer of itself or the whole or any substantial part of its undertaking, property, assets or revenues or takes any proceeding under any law for a readjustment or deferment of its obligations or any part thereof or makes or enters into a general assignment or an arrangement or composition with or for the benefit of its creditors or stops or threatens to cease to carry on its business or any substantial part of its business except in any case in connection with a substitution pursuant to Condition 14 (Meetings of holders of the Covered Bonds, Modification, Waiver and Substitution) or for the purpose of a reconstruction, union, transfer (of engagements or of business), merger, amalgamation or reorganisation the terms of which have previously been approved in writing by the Bond Trustee or by an Extraordinary Resolution, or in the case of a Principal Subsidiary in connection with the transfer of all or the major part of its business, undertaking and assets to the Issuer or another wholly-owned Subsidiary of the Issuer; or

(d) if the Issuer ceases to carry on its business or substantially the whole of its business (except in any case in connection with a substitution pursuant to Condition 14 (Meetings of holders of the Covered Bonds, Modification, Waiver and Substitution), or for the purpose of or in connection with a reconstruction, union, transfer (of engagements or business), reorganisation, merger, or amalgamation the terms of which have previously been approved in writing by the Bond Trustee or by an Extraordinary Resolution); or

(e) (i) any other present or future indebtedness in respect of moneys borrowed or raised in an amount of £40,000,000 or more (or its equivalent in any other currency) of the Issuer or any Principal Subsidiary becomes due and payable prior to its stated maturity pursuant to a default; or

(ii) any such indebtedness is not paid when due or (as the case may be) within any applicable grace period therefor; or

(iii) the Issuer or any Principal Subsidiary fails to pay when due or (as the case may be) within any applicable grace period therefore any amount payable by it under any present or future guarantee in an amount of £40,000,000 or more (or its equivalent in

any other currency) (other than any guarantee given in the ordinary course of its business) for any indebtedness in respect of moneys borrowed or raised; or

(iv) any mortgage, charge, pledge, lien or other encumbrance present or future securing an amount of £40,000,000 or more (or its equivalent in any other currency) and created or assumed by the Issuer or any Principal Subsidiary becomes enforceable and the holder thereof takes any steps to enforce the same; or

(f) a distress or execution or other similar legal process in respect of a claim for £20,000,000 or more is levied or enforced or sued out upon or against any part of the property, assets or revenues of the Issuer or any Principal Subsidiary and is not discharged or stayed within 30 days of having been so levied, enforced or sued out; or

(g) an order is made, an effective resolution is passed or the necessary consent of the Issuer's members is given for the winding up or dissolution of the Issuer or any Principal Subsidiary or the authorisation or registration of the Issuer is or is proposed to be cancelled, suspended or revoked or anything analogous or similar to any of the foregoing occurs (except in any case for the purposes of a reconstruction, union, transfer (of engagements or business), merger, amalgamation or reorganisation the terms of which have previously been approved in writing by the Bond Trustee or by an Extraordinary Resolution or in the case of a voluntary solvent winding up of a wholly-owned Principal Subsidiary in connection with the transfer of all or the major part of its business, undertaking and assets to the Issuer or another wholly-owned Subsidiary of the Issuer or in connection with a substitution pursuant to Condition 14 (Meetings of holders of the Covered Bonds, Modification, Waiver and Substitution)); or

(h) if an Asset Coverage Test Breach Notice has been served and not revoked (in accordance with the terms of the Transaction Documents) on or before the third Calculation Date after service of such Asset Coverage Test Breach Notice.

Principal Subsidiary means a Subsidiary of the Issuer whose total assets (attributable to the Issuer) represent 10% or more of the consolidated total assets of the Issuer and its Subsidiaries (all as more particularly described in the Trust Deed). A certificate signed by two Authorised Signatories (as defined in the Master Definitions and Construction Agreement) of the Issuer that in their opinion a Subsidiary of the Issuer is or is not or was or was not at any particular time or throughout any specified period a Principal Subsidiary may be relied upon by the Bond Trustee without further enquiry or evidence and, if so relied upon shall, in the absence of manifest or proven error, be conclusive and binding on all parties.

Upon the Covered Bonds becoming immediately due and repayable against the Issuer pursuant to this Condition 9.1 (Issuer Events of Default), the Bond Trustee shall forthwith serve a notice to pay (the **Notice to Pay**) on the LLP pursuant to the Covered Bond Guarantee and the LLP shall be required to make payments of Guaranteed Amounts when the same shall become Due for Payment in accordance with the terms of the Covered Bond Guarantee.

Following the occurrence of an Issuer Event of Default and service of an Issuer Acceleration Notice, the Bond Trustee may or shall take such proceedings against the Issuer in accordance with the first paragraph of Condition 9.3 (Enforcement).

The Trust Deed provides that all moneys received by the Bond Trustee from the Issuer or any receiver, liquidator, administrator or other similar official appointed in relation to the Issuer following the occurrence of an Issuer Event of Default and service of an Issuer Acceleration Notice and a Notice to Pay (the **Excess Proceeds**), shall be paid by the Bond Trustee on behalf of the holders of the Covered Bonds of the relevant Series to the LLP for its own account, as soon as

practicable, and shall be held by the LLP in the GIC Account and the Excess Proceeds shall thereafter form part of the Security and shall be used by the LLP in the same manner as all other moneys from time to time standing to the credit of the GIC Account pursuant to the Deed of Charge and the LLP Deed. Any Excess Proceeds received by the Bond Trustee shall discharge *pro tanto* the obligations of the Issuer in respect of the payment of the amount of such Excess Proceeds under the Covered Bonds, Receipts and Coupons. However, the obligations of the LLP under the Covered Bond Guarantee are (following service of a Notice to Pay) unconditional and irrevocable and the receipt by the Bond Trustee of any Excess Proceeds shall not reduce or discharge any of such obligations.

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

9.2 LLP Events of Default

The Bond Trustee at its discretion may, and if so requested in writing by the holders of at least 25% of the aggregate Principal Amount Outstanding of the Covered Bonds (which for this purpose and the purpose of any Extraordinary Resolution referred to in this Condition 9.2 (LLP Events of Default) means the Covered Bonds of this Series together with the Covered Bonds of any other Series constituted by the Trust Deed) then outstanding as if they were a single Series (with the nominal amount of Covered Bonds not denominated in Sterling converted into Sterling at the relevant Covered Bond Swap Rate) or if so directed by an Extraordinary Resolution of all the holders of the Covered Bonds shall (subject in each case to being indemnified and/or secured to its satisfaction), but in the case of the happening of any of the events described in paragraphs (b) to (g) below, only if the Bond Trustee shall have certified in writing to the Issuer and the LLP that such event is, in its opinion, materially prejudicial to the interests of the holders of the Covered Bonds of any Series, give notice (the **LLP Acceleration Notice**) in writing to the Issuer and to the LLP, that (x) each Covered Bond of each Series is, and each Covered Bond of each Series shall as against the Issuer (if not already due and repayable against it following an Issuer Event of Default), thereupon immediately become, due and repayable at its Early Redemption Amount together with accrued interest and (y) all amounts payable by the LLP under the Covered Bond Guarantee shall thereupon immediately become due and payable at the Guaranteed Amount corresponding to the Early Redemption Amount for each Covered Bond of each Series together with accrued interest, in each case as provided in the Trust Deed and thereafter the Security shall become enforceable if any of the following events (each an **LLP Event of Default**) shall occur and be continuing:

(a) default is made by the LLP for a period of seven days or more in the payment of any Guaranteed Amounts when Due for Payment in respect of the Covered Bonds of any Series except in the case of the payments of a Guaranteed Amount when Due for Payment under Condition 6.1 (Final redemption) where the LLP shall be required to make payments of Guaranteed Amounts which are Due for Payment on the dates specified therein; or

(b) if default is made by the LLP in the performance or observance of any obligation, condition or provision binding on it (other than any obligation for the payment of Guaranteed Amounts in respect of the Covered Bonds of any Series) under the Trust Deed, the Deed of Charge or any other Transaction Document to which the LLP is a party and, except where such default is or the effects of such default are, in the opinion of the Bond Trustee, not capable of remedy when no such continuation and notice as is hereinafter mentioned will be required, such default continues for 30 days (or such longer period as the Bond Trustee may permit) after written notice thereof has been given by the Bond Trustee to the LLP requiring the same to be remedied; or

(c) an order is made or an effective resolution passed for the liquidation or winding up of the LLP; or

(d) if the LLP ceases or threatens to cease to carry on its business or substantially the whole of its business; or

(e) the LLP shall stop payment or shall be unable, or shall admit inability, to pay its debts generally as they fall due or shall be adjudicated or found bankrupt or insolvent; or

(f) proceedings are initiated against the LLP under any applicable liquidation, winding up, insolvency, bankruptcy, composition, reorganisation or other similar laws (including, but not limited to, presentation of a petition or the filing of documents with a court or any registrar for its winding-up, administration or dissolution or the giving notice of the intention to appoint an administrator (whether out of court or otherwise)); or a receiver and/or manager, administrative receiver, administrator, trustee or other similar official shall be appointed (whether out of court or otherwise) in relation to the LLP or in relation to the whole or any part of its assets, or a distress, diligence or execution or other process shall be levied or enforced upon or sued out against the whole or any part of its assets, or if the LLP shall initiate or consent to judicial proceedings relating to itself under any applicable liquidation, winding up, insolvency, bankruptcy, composition, reorganisation or other similar laws or shall make a conveyance, assignment or assignation for the benefit of, or shall enter into any composition with, its creditors generally; or

(g) a failure to satisfy the Amortisation Test (as set out in the LLP Deed) on any 12th day of each month (or, if that is not a Business Day, then the immediately preceding Business Day) (the **Calculation Date**) following an Issuer Event of Default.

Following the occurrence of an LLP Event of Default and service of an LLP Acceleration Notice on the LLP each of the Bond Trustee and the Security Trustee may or shall take such proceedings or steps in accordance with the first and second paragraphs, respectively, of Condition 9.3 (Enforcement) and the holders of the Covered Bonds shall have a claim against the LLP, under the Covered Bond Guarantee, for an amount equal to the Early Redemption Amount together with accrued interest and any other amount due under the Covered Bonds (other than additional amounts payable under Condition 7 (Taxation)) as provided in the Trust Deed in respect of each Covered Bond.

9.3 Enforcement

The Bond Trustee may at any time, at its discretion and without further notice, take such proceedings against the Issuer and/or the LLP, as the case may be, and/or any other person as it may think fit to enforce the provisions of the Trust Deed, the Covered Bonds, the Receipts and the Coupons, but it shall not be bound to take any such enforcement proceedings in relation to the Trust Deed, the Covered Bonds, the Receipts or the Coupons or any other Transaction Document unless (a) it shall have been so directed by an Extraordinary Resolution of all the holders of the Covered Bonds of all Series (with the Covered Bonds of all Series taken together as a single Series as aforesaid) or so requested in writing by the holders of not less than 25% of the aggregate Principal Amount Outstanding of the Covered Bonds of all Series then outstanding (taken together and converted into Sterling at the relevant Covered Bond Swap Rate as aforesaid) and (b) it shall have been indemnified and/or secured to its satisfaction.

In exercising any of its powers, trusts, authorities and discretions the Bond Trustee shall only have regard to the interests of the holders of the Covered Bonds of all Series and shall not have regard to the interests of any other Secured Creditors.

The Security Trustee may at any time, at its discretion and without further notice, take such proceedings against the LLP and/or any other person as it may think fit to enforce the provisions of the Deed of Charge and may, at any time after the Security has become enforceable, take such steps as it may think fit to enforce the Security, but it shall not be bound to take any such steps unless (a) it shall have been so directed by an Extraordinary Resolution of all the holders of the Covered Bonds of all Series (with the Covered Bonds of all Series taken together as a single Series as aforesaid) or a request in writing by the holders of not less than 25% of the aggregate Principal Amount Outstanding of the Covered Bonds of all Series then outstanding (taken together converted into Sterling at the relevant Covered Bond Swap Rate as aforesaid); and (b) it shall have been indemnified and/or secured to its satisfaction. In exercising any of its powers, trusts, authorities and discretions under this paragraph the Security Trustee shall only have regard to the interests of the holders of the Covered Bonds of all Series and shall not have regard to the interests of any other Secured Creditors.

No holder of the Covered Bonds, Receiptholder or Couponholder shall be entitled to proceed directly against the Issuer or the LLP or to take any action with respect to the Trust Deed, the Covered Bonds, the Receipts, the Coupons, or the Security unless the Bond Trustee or the Security Trustee, as applicable, having become bound so to proceed, fails so to do within a reasonable time and such failure shall be continuing.

10. REPLACEMENT OF COVERED BONDS, RECEIPTS, COUPONS AND TALONS

Should any Covered Bond, Receipt, Coupon or Talon be lost, stolen, mutilated, defaced or destroyed, it may be replaced at the specified office of the Principal Paying Agent in London (in the case of Bearer Covered Bonds, Receipts or Coupons) or the Registrar (in the case of Registered Covered Bonds), or any other place approved by the Bond Trustee of which notice shall have been published in accordance with Condition 13 (Notices) upon payment by the claimant of such costs and expenses as may be incurred in connection therewith and on such terms as to evidence and indemnity as the Issuer may reasonably require. Mutilated or defaced Covered Bonds, Receipts, Coupons or Talons must be surrendered before replacements will be issued.

11. PRINCIPAL PAYING AGENT, PAYING AGENTS, REGISTRAR, TRANSFER AGENT AND EXCHANGE AGENT

The names of the initial Principal Paying Agent, the other initial Paying Agents, the initial Registrar, the initial Transfer Agent, the initial Exchange Agent and their initial specified offices are set out below.

In the event of the appointed office of any such bank being unable or unwilling to continue to act as the Principal Paying Agent, or failing duly to determine the Rate of Interest, if applicable, or to calculate the Interest Amounts for any Interest Period, the Issuer shall appoint the London office of such other bank as may be approved by the Bond Trustee to act as such in its place. The Principal Paying Agent may not resign its duties or be removed from office without a successor having been appointed as aforesaid.

The Issuer is entitled, with the prior written approval of the Bond Trustee, to vary or terminate the appointment of any Paying Agent or the Registrar and/or appoint additional or other Paying Agents or the Registrar and/or approve any change in the specified office through which any Paying Agent or the Registrar acts, provided that:

(a) there will at all times be a Principal Paying Agent and a Registrar;

(b) the Issuer will, so long as any of the Covered Bonds is outstanding, maintain a Paying Agent (which may be the Principal Paying Agent) having a specified office in a city approved by the Bond Trustee in continental Europe;

(c) so long as any of the Covered Bonds are listed on any stock exchange or admitted to listing by any other relevant authority, there will at all times be a Paying Agent (in the case of Bearer Covered Bonds) and a Transfer Agent (in the case of Registered Covered Bonds) with a specified office in such place as may be required by the rules and regulations of the relevant stock exchange or as the case may be, other relevant authority;

(d) so long as any of the Registered Global Bonds payable in a Specified Currency other than US dollars are held through DTC or its nominee, there will at all times be an Exchange Agent with a specified office in New York City; and

(e) the Issuer will ensure that it maintains a Paying Agent in a Member State of the European Union that will not be obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to such Directive.

In addition, the Issuer shall forthwith appoint a Paying Agent having a specified office in New York City in the circumstances described in Condition 5.5 (General provisions applicable to payments). Notice of any such variation, termination, appointment or change will be given by the Issuer to the holders of the Covered Bonds as soon as reasonably practicable in accordance with Condition 13 (Notices).

In acting under the Agency Agreement, the Agents act solely as agents of the Issuer and the LLP and, in certain circumstances specified therein, of the Bond Trustee and do not assume any obligation to, or relationship of agency or trust with, any holders of the Covered Bonds, Receiptholders or Couponholders. The Agency Agreement contains provisions permitting any entity into which any Agent is merged or converted or with which it is consolidated or to which it transfers all or substantially all of its assets to become the successor agent.

12. EXCHANGE OF TALONS

On and after the Interest Payment Date on which the final Coupon comprised in any Coupon sheet matures, the Talon (if any) forming part of such Coupon sheet may be surrendered at the specified office of the Principal Paying Agent or any other Paying Agent in exchange for a further Coupon sheet including (if such further Coupon sheet does not include Coupons to (and including) the final date for the payment of interest due in respect of the Bearer Covered Bond to which it appertains) a further Talon, subject to the provisions of Condition 8 (Prescription).

13. NOTICES

All notices regarding the Bearer Covered Bonds will be valid if published in the Financial Times or any other daily newspaper in London approved by the Bond Trustee or, if this is not possible, in one other English language daily newspaper approved by the Bond Trustee with general circulation in Europe. The Issuer shall also ensure that notices are duly published in a manner which complies with the rules and regulations of any stock exchange or any other relevant authority on which the Bearer Covered Bonds are for the time being listed. Any such notice will be deemed to have been given on the date of the first publication or, where required to be published in more than one newspaper, on the date of the first publication in all required newspapers or where published in such newspapers on different dates, the last date of such first publication.

All notices regarding the Registered Covered Bonds will be deemed to be validly given if sent by first class mail or (if posted to an address overseas) by airmail to the holders (or the first named of joint holders) at their respective addresses recorded in the Register and will be deemed to have been given on the fourth day after mailing and, in addition, for so long as any Registered Covered Bonds are listed, quoted or traded on a stock exchange or are admitted to listing by another relevant authority and the rules of that stock exchange or relevant authority so require, such notice will be published in a daily newspaper of general circulation in the place or places required by those rules.

So long as the Covered Bonds are represented in their entirety by any Global Covered Bonds held on behalf of DTC and/or Euroclear and/or Clearstream, Luxembourg, there may be substituted for such publication in such newspaper(s) the delivery of the relevant notice to DTC and/or Euroclear and/or Clearstream, Luxembourg for communication by them to the holders of the Covered Bonds and, in addition, for so long as any Covered Bonds are listed on a stock exchange or admitted to listing by any other relevant authority and the rules of the stock exchange, or as the case may be, other relevant authority so require, such notice will be published in a daily newspaper of general circulation in the place or places required by that stock exchange or, as the case may be, or any other relevant authority. Any such notice shall be deemed to have been given to the holders of the Covered Bonds on the day on which the said notice was given to DTC and/or Euroclear and/or Clearstream, Luxembourg.

14. MEETINGS OF HOLDERS OF THE COVERED BONDS, MODIFICATION, WAIVER AND SUBSTITUTION

The Trust Deed contains provisions for convening meetings of the holders of the Covered Bonds to consider any matter affecting their interests, including the modification by Extraordinary Resolution of these Conditions or the provisions of the Trust Deed or any of the Transaction Documents. The quorum at any such meeting in respect of any Covered Bonds of any Series for passing an Extraordinary Resolution is one or more persons holding or representing not less than a clear majority of the aggregate Principal Amount Outstanding of the Covered Bonds of such Series for the time being outstanding, or at any adjourned meeting one or more persons being or representing holders of the Covered Bonds whatever the nominal amount of the Covered Bonds of such Series so held or represented, except that at any meeting the business of which includes the modification of any Series Reserved Matter, the quorum shall be one or more persons holding or representing not less than two-thirds of the aggregate Principal Amount Outstanding of the Covered Bonds of such Series for the time being outstanding, or at any adjourned such meeting one or more persons holding or representing not less than one-third of the aggregate Principal Amount Outstanding of the Covered Bonds of such Series for the time being outstanding. An Extraordinary Resolution passed at any meeting of the holders of the Covered Bonds of a Series shall, subject as provided below, be binding on all the holders of the Covered Bonds of such Series, whether or not they are present at the meeting, and on all Receiptholders and Couponholders in respect of such Series of Covered Bonds. Pursuant to the Trust Deed, the Bond Trustee may convene a single meeting of the holders of Covered Bonds of more than one Series if in the opinion of the Bond Trustee there is no conflict between the holders of such Covered Bonds, in which event the provisions of this paragraph shall apply thereto *mutatis mutandis*.

Notwithstanding the provisions of the immediately preceding paragraph, any Extraordinary Resolution to direct the Bond Trustee to accelerate the Covered Bonds pursuant to Condition 9 (Events of Default and Enforcement) or to direct the Bond Trustee or the Security Trustee to take any enforcement action (each a **Programme Resolution**) shall only be capable of being passed at a single meeting of the holders of the Covered Bonds of all Series then outstanding. Any such meeting to consider a Programme Resolution may be convened by the Issuer, the LLP or the Bond Trustee or by holders of the Covered Bonds of any Series. The quorum at any such meeting for passing a Programme Resolution is one or more persons holding or representing at least a clear majority of the aggregate Principal Amount Outstanding of the Covered Bonds of all Series for the

time being outstanding or at any adjourned such meeting one or more persons holding or representing Covered Bonds whatever the nominal amount of the Covered Bonds of any Series so held or represented. A Programme Resolution passed at any meeting of the holders of the Covered Bonds of all Series shall be binding on all holders of the Covered Bonds of all Series, whether or not they are present at the meeting, and on all related Receiptholders and Couponholders in respect of such Series of Covered Bonds.

In connection with any meeting of the holders of Covered Bonds of more than one Series where such Covered Bonds are not denominated in Sterling, the nominal amount of the Covered Bonds of any Series not denominated in Sterling shall be converted into Sterling at the relevant Covered Bond Swap Rate.

The Bond Trustee, the Security Trustee, the LLP and the Issuer may also agree, without the consent of the holders of the Covered Bonds, Receiptholders or Couponholders of any Series and without the consent of the other Secured Creditors (and for this purpose the Bond Trustee and the Security Trustee may disregard whether any such modification relates to a Series Reserved Matter), to:

(a) any modification of the Covered Bonds of one or more Series, the related Receipts and/or Coupons or any Transaction Document provided that (i) in the opinion of the Bond Trustee such modification is not materially prejudicial to the interests of any of the holders of the Covered Bonds of any Series, and (ii) in the opinion of the Security Trustee such modification is not materially prejudicial to the interests of any of the holders of the Covered Bonds of any Series; or

(b) any modification of the Covered Bonds of any one or more Series, the related Receipts and/or Coupons or any Transaction Document which is of a formal, minor or technical nature or is in the opinion of the Bond Trustee and Security Trustee made to correct a manifest error or an error established as such to the satisfaction of the Bond Trustee and the Security Trustee or to comply with mandatory provisions of law.

The Bond Trustee may also agree, without the consent of the holders of the Covered Bonds of any Series, the related Receiptholders and/or Couponholders, to the waiver or authorisation of any breach or proposed breach of any of the provisions of the Covered Bonds of any Series, or determine, without any such consent as aforesaid, that any Issuer Event of Default or LLP Event of Default or Potential Issuer Event of Default or Potential LLP Event of Default shall not be treated as such, provided that, in any such case, it is not, in the opinion of the Bond Trustee, materially prejudicial to the interests of any of the holders of the Covered Bonds of any Series. The Security Trustee may also agree, without the consent of the holders of the Covered Bonds of any Series, the related Receiptholders and/or Couponholders or any other Secured Creditor, to the waiver or authorisation of any breach or proposed breach of any of the provisions of the Transaction Documents, provided that, in any such case, it is not, in the opinion of the Security Trustee, materially prejudicial to the interests of any of the holders of the Covered Bonds of any Series.

(i) In respect of any modification, waiver, authorisation or determination that is proposed on or after the date on which the Issuer is admitted to the register of issuers pursuant to Regulation 14 of the RCB Regulations, prior to the Bond Trustee or the Security Trustee agreeing to any such modification, waiver, authorisation or determination pursuant to this Condition 14 (Meetings of holders of the Covered Bonds, Modification, Waiver and Substitution) or as directed by the Covered Bondholders, the Issuer must send written confirmation to the Bond Trustee and the Security Trustee that such modification, waiver, authorisation or determination, as applicable, would not result in a breach of the RCB Regulations or the RCB Sourcebook or result in the Issuer and/or the Programme ceasing to be registered under the RCB Regulations and that either such modification, waiver, authorisation or

determination would not require the FSA to be notified in accordance with Regulation 20 of the RCB Regulations; or

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

Any such modification, waiver, authorisation or determination shall be binding on all holders of the Covered Bonds of all Series of Covered Bonds for the time being outstanding, the related Receiptholders and the Couponholders and the other Secured Creditors, and unless the Security Trustee and the Bond Trustee otherwise agree, any such modification shall be notified by the Issuer to the holders of the Covered Bonds of all Series of Covered Bonds for the time being outstanding and the other Secured Creditors in accordance with the relevant terms and conditions as soon as practicable thereafter.

In connection with the exercise by it of any of its trusts, powers, authorities and discretions (including, without limitation, any modification, waiver, authorisation or determination), the Bond Trustee and the Security Trustee shall have regard to the general interests of the holders of the Covered Bonds of each Series as a class (but shall not have regard to any interests arising from circumstances particular to individual holders of the Covered Bonds, Receiptholders or Couponholders whatever their number) and, in particular but without limitation, shall not have regard to the consequences of any such exercise for individual holders of the Covered Bonds, the related Receiptholders, Couponholders (whatever their number) resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory or any political sub-division thereof and the Bond Trustee and the Security Trustee shall not be entitled to require, nor shall any holder of the Covered Bonds, Receiptholder or Couponholder be entitled to claim, from the Issuer, the LLP, the Bond Trustee, the Security Trustee or any other person any indemnification or payment in respect of any tax consequences of any such exercise upon individual holders of the Covered Bonds, Receiptholders and/or Couponholders, except to the extent already provided for in Condition 7 (Taxation) and/or in any undertaking or covenant given in addition to, or in substitution for, Condition 7 (Taxation) pursuant to the Trust Deed.

Substitution

(a) Subject as provided in the Trust Deed, the Bond Trustee, if it is satisfied that so to do would not be materially prejudicial to the interests of the holders of the Covered Bonds, may agree, without the consent of the holders of the Covered Bonds, Receiptholders or Couponholders, to the substitution of any Successor in Business of the Issuer or of a Subsidiary of the Issuer or any such Successor in Business, not being in any such case a building society formed by the amalgamation of the Issuer and one or more other building societies pursuant to Section 93 of the Building Societies Act or a building society to which the Issuer has transferred all of its engagements pursuant to Section 94 of the Building Societies Act or the successor in accordance with Section 97 of the Building Societies Act or a subsidiary of a mutual society to which the Issuer has transferred the whole of its business pursuant to Section 97 of the Building Societies Act (as modified by the Mutual Transfers Order or any other order made in the future by HM Treasury under section 3 of the Funding and Mutual Societies Transfers Act), in place of the Issuer as principal debtor under the Covered Bonds and the Trust Deed, provided (in case of the substitution of any company which is a Subsidiary of the Issuer or such Successor in Business) that the obligations of such Subsidiary in respect of the Covered Bonds and the Trust Deed in respect thereof shall be guaranteed by the Issuer or such Successor in Business in such form as the Bond Trustee may require.

(b) The Issuer has covenanted with the Bond Trustee in the Trust Deed that it will not transfer its business to a successor in accordance with Section 97 of the Building Societies Act unless either (i) the Bond Trustee is satisfied that the successor will be or (as the case may be) will remain an authorised person under the FSMA 2000 (or any statutory modification or re-enactment thereof) and the Issuer has received Rating Agency Confirmation for such transfer or (ii) such transfer is approved by the Bond Trustee or by an Extraordinary Resolution of the holders of the Covered Bonds.

(c) The Issuer has covenanted with the Bond Trustee in the Trust Deed that it will not enter into any arrangement for the transfer of its engagements to another building society pursuant to Section 94 of the Building Societies Act unless it transfers all its engagements to such society (and it has received Rating Agency Confirmation for such transfer) or such transfer has been approved by the Bond Trustee or by an Extraordinary Resolution of the holders of the Covered Bonds.

(d) If the Issuer shall amalgamate with one or more other building societies pursuant to Section 93 of the Building Societies Act or transfer all of its engagements to another building society pursuant to Section 94 of the Building Societies Act or transfer the whole of its business to a successor in accordance with Section 97 of the Building Societies Act or transfer the whole of its business to a subsidiary of a mutual society pursuant to Section 97 of the Building Societies Act (as modified by the Mutual Transfers Order or any other order made in the future by HM Treasury under section 3 of the Funding and Mutual Societies Transfers Act) the successor will, pursuant to such provisions and provided that the Issuer has received Rating Agency Confirmation for such amalgamation or transfer, automatically be substituted in place of the Issuer as principal debtor under the Trust Deed without any prior approval thereof being required from the holders of the Covered Bonds, the Receiptholders, the Couponholders or the Bond Trustee (but without prejudice to the provisions of paragraphs (a), (b) and (c) above).

(e) The Issuer has covenanted with the Bond Trustee in the Trust Deed that it will not agree to the substitution of the Issuer unless any successor to the Issuer or the Guarantor, including any Successor in Business or the Subsidiary of the Issuer or of such Successor in Business, is included in the register of Issuers pursuant to the RCB Regulations and that all other provisions (including Regulation 20 of the RCB Regulations) of the RCB Regulations and the RCB Sourcebook are satisfied prior to the substitution of the Issuer.

(f) Any substitution pursuant to this Condition 14 (Meetings of holders of the Covered Bonds, Modification, Waiver and Substitution) shall be binding on the holders of the Covered Bonds, the Receiptholders and the Couponholders and, unless the Bond Trustee agrees otherwise, shall be notified to the holders of the Covered Bonds as soon as practicable thereafter in accordance with Condition 13 (Notices).

For the purposes of this Condition 14 (Meetings of holders of the Covered Bonds, Modification, Waiver and Substitution):

Potential Issuer Event of Default means any condition, event or act which, with the lapse of time and/or the issue, making or giving of any notice, certification, declaration, demand, determination and/or request and/or the taking of any similar action and/or the fulfilment of any similar condition, would constitute an Issuer Event of Default;

Potential LLP Event of Default means any condition, event or act which, with the lapse of time and/or the issue, making or giving of any notice, certification, declaration, demand, determination and/or request and/or the taking of any similar action and/or the fulfilment of any similar condition, would constitute an LLP Event of Default;

Successor in Business means:

(a) any building society (not being a building society which is established by the amalgamation of the Society under and in accordance with the terms of Section 93 of the Building Societies Act) which is validly and effectually, in accordance with all enactments, orders and regulations in force from time to time, registered as a successor society to the Issuer and to another building society or other building societies in order to effect the amalgamation of the Issuer with such other society or societies; or

(b) any building society (not being a building society which undertakes under and in accordance with the terms of Section 94 of the Building Societies Act to fulfil the engagements of the Issuer) which validly and effectually, in accordance with all enactments, orders and regulations in force from time to time, undertakes to fulfil the obligations of the Issuer as part of a transfer of engagements by the Issuer to such building society; or

(c) a company or other entity (not being a successor within the meaning of Section 97 of the Building Societies Act or a subsidiary of a mutual society to which the Issuer has transferred the whole of its business pursuant to Section 97 of the Building Societies Act as modified by the Mutual Transfers Order or any other order made in the future by the Treasury under section 3 of the Funding and Mutual Societies Transfers Act) to which the Issuer validly and effectually, in accordance with all enactments, orders and regulations in force for the time being and from time to time, as part of a transfer of the whole or substantially the whole of its business, undertaking or assets, transfers the whole or substantially the whole of its business, undertaking or assets for the purpose of such other company or entity assuming and conducting the business of the Issuer in its place and which company or other entity undertakes to fulfil the obligations of the Issuer under these presents; or

(d) any other entity (not being a successor within the meaning of Section 93 of the Building Societies Act, a society to which the engagements of the Issuer are transferred under Section 94 of the Building Societies Act or a successor within the meaning of Section 97 of the Building Societies Act or a subsidiary of a mutual society to which the Issuer has transferred the whole of its business pursuant to Section 97 of the Building Societies Act as modified by the Mutual Transfers Order or any other order made in the future by the Treasury under section 3 of the Funding and Mutual Societies Transfers Act) which in acquiring in any other manner all or a substantial part of the undertaking, property and/or assets of the Issuer or in carrying on as a successor to the Society the whole or a substantial part of the business carried on by the Issuer prior thereto undertakes to fulfil the obligations of the Issuer under these presents,

where, in each of the cases in paragraphs (a) to (d) above, Rating Agency Confirmation has been received in respect of the terms of the proposed transaction; and

Series Reserved Matter in relation to Covered Bonds of a Series means; (a) reduction or cancellation of the amount payable or, where applicable, modification of the method of calculating the amount payable or modification of the date of payment or, where applicable, modification of the method of calculating the date of payment in respect of any principal or interest in respect of the Covered Bonds; (b) alteration of the currency in which payments under the Covered Bonds, Receipts and Coupons are to be made; (c) alteration of the majority required to pass an Extraordinary Resolution; (d) any amendment to the Covered Bond Guarantee or the Deed of Charge (except in a manner determined by the Bond Trustee not to be materially prejudicial to the interests of the holders of the Covered Bonds of any Series); (e) except in accordance with Condition 6.4, the sanctioning of any such scheme or proposal for the exchange or sale of the Covered Bonds for or the conversion of the Covered Bonds into, or the cancellation of the Covered Bonds in consideration of, shares, stock, covered bonds, bonds, debentures, debenture stock and/or other obligations and/or

securities of the Issuer or any other company formed or to be formed, or for or into or in consideration of cash, or partly for or into or in consideration of such shares, stock, bonds, covered bonds, debentures, debenture stock and/or other obligations and/or securities as aforesaid and partly for or into or in consideration of cash and for the appointment of some person with power on behalf of the holders of the Covered Bonds to execute an instrument of transfer of the Registered Covered Bonds held by them in favour of the persons with or to whom the Covered Bonds are to be exchanged or sold respectively; and (f) alteration of the proviso to paragraph 5 or paragraph 6 of Schedule 4 to the Trust Deed.

15. INDEMNIFICATION OF THE BOND TRUSTEE AND/OR SECURITY TRUSTEE AND BOND TRUSTEE AND/OR SECURITY TRUSTEE CONTRACTING WITH THE ISSUER AND/OR THE LLP

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

The Trust Deed and the Deed of Charge contain provisions for the indemnification of the Bond Trustee and the Security Trustee and for their relief from responsibility, including provisions relieving them from taking any action unless indemnified and/or secured to their satisfaction.

The Trust Deed and the Deed of Charge also contain provisions pursuant to which each of the Bond Trustee and Security Trustee, respectively, is entitled, *inter alia*, (a) to enter into business transactions with the Issuer, the LLP and/or any of their respective Subsidiaries and affiliates and to act as trustee for the holders of any other securities issued or guaranteed by, or relating to, the Issuer, the LLP and/or any of their respective Subsidiaries and affiliates, (b) to exercise and enforce its rights, comply with its obligations and perform its duties under or in relation to any such transactions or, as the case may be, any such trusteeship without regard to the interests of, or consequences for, the holders of the Covered Bonds, Receiptholders or Couponholders or the other Secured Creditors and (c) to retain and not be liable to account for any profit made or any other amount or benefit received thereby or in connection therewith.

Neither the Bond Trustee nor the Security Trustee will be responsible for any loss, expense or liability, which may be suffered as a result of any Loans or Related Security, or any deeds or documents of title thereto, being uninsured or inadequately insured or being held by organisations or their operators or by intermediaries such as banks, brokers or other similar persons on behalf of the Bond Trustee and/or the Security Trustee. Neither the Bond Trustee nor the Security Trustee will be responsible for (a) supervising the performance by the Issuer or any other party to the Transaction Documents of their respective obligations under the Transaction Documents and the Bond Trustee and the Security Trustee will be entitled to assume, until they each have written notice to the contrary, that all such persons are properly performing their duties; (b) considering the basis on which approvals or consents are granted by the Issuer or any other party to the Transaction Documents under the Transaction Documents; (c) monitoring the Portfolio, including, without limitation, whether the Portfolio is in compliance with the Asset Coverage Test, the Pre-Maturity Test or the Amortisation Test; or (d) monitoring whether Loans and Related Security satisfy the Eligibility Criteria. Neither the Bond Trustee nor the Security Trustee will be liable to any holder of the Covered Bonds or other Secured Creditor for any failure to make or to cause to be made on their behalf the searches, investigations and enquiries which would normally be made by a prudent chargee in relation to the Security and have no responsibility in relation to the legality, validity, sufficiency and enforceability of the Security and the Transaction Documents.

16. FURTHER ISSUES

The Issuer shall be at liberty from time to time without the consent of the holders of the Covered Bonds, the Receiptholders or the Couponholders to create and issue further bonds having terms and conditions the same as the Covered Bonds of any Series or the same in all respects save for the amount and date of the first payment of interest thereon, issue date and/or purchase price and so that the same shall be consolidated and form a single Series with the outstanding Covered Bonds of such Series.

17. CONTRACTS (RIGHTS OF THIRD PARTIES) ACT 1999

No person shall have any right to enforce any term or condition of this Covered Bond under the Contracts (Rights of Third Parties) Act 1999, but this does not affect any right or remedy of any person which exists or is available apart from that Act.

18. GOVERNING LAW

The Trust Deed, the Agency Agreement, the corporate services agreement entered into by the LLP, with, *inter alios*, Wilmington Trust SP Services (London) Limited and the LLP dated the Initial Programme Date (such corporate services agreement as modified and/or supplemented and/or restated from time to time, the **Corporate Services Agreement**), the Covered Bonds, the Receipts, the Coupons and the other Transaction Documents (other than each declaration of trust in relation to the sale of Scottish loans and their related security by the Issuer to the LLP (each a **Scottish Declaration of Trust**), certain documents to be granted pursuant to the Deed of Charge and the Corporate Services Agreement) are governed by, and shall be construed in accordance with, English law unless specifically stated to the contrary. Each Scottish Declaration of Trust is governed by, and shall be construed in accordance with, Scots law. Certain documents to be granted pursuant to the Deed of Charge will be governed by, and construed in accordance with, Scots law.

USE OF PROCEEDS

The gross proceeds from each issue of Covered Bonds will be used by the Issuer to make available Term Advances to the LLP pursuant to the terms of the Intercompany Loan Agreement, which in turn shall be used by the LLP (after swapping the proceeds of the Term Advances into Sterling, if necessary) either (i) to acquire Loans and their Related Security or (ii) to invest the same in Substitution Assets up to the prescribed limit to the extent required to meet the requirements of Regulations 17(2)(b) and 24(1)(a)(ii) of the RCB Regulations and the Asset Coverage Test and thereafter may be applied by the LLP:

- to acquire Loans and their Related Security or to invest the same in Substitution Assets up to the prescribed limit; and/or
- if an existing Series, or part of an existing Series, of Covered Bonds is being refinanced by such issue of Covered Bonds, to repay the Term Advance(s) corresponding to the Covered Bonds being so refinanced; and/or
- subject to complying with the Asset Coverage Test, to make a Capital Distribution to a Member; and/or
- to deposit all or part of the proceeds into the GIC Account (including, without limitation, to fund the Reserve Amount to an amount not exceeding the prescribed limit).

EXCHANGE RATES

The following table sets forth, for the periods indicated, the high, low, average and period-end noon-buying rates in the City of New York for cable transfers in sterling as announced by the Federal Reserve Bank of New York for customs purposes, in each case for the purchase of US dollars, all expressed in US dollars per pound sterling (the **Market Exchange Rate**).

US Dollars Per Pound Sterling

For the financial year ended	**High**	**Low**	**Average[1]**	**Year End**
		(US dollars per pound sterling)		
4 April 2010[2]	1.70	1.45	1.60	1.52
4 April 2009[3]	2.00	1.37	1.70	1.48
4 April 2008	2.11	1.94	2.01	1.99
4 April 2007	1.98	1.74	1.91	1.98
4 April 2006	1.92	1.71	1.78	1.76

US Dollars Per Pound Sterling

For the month of	**High**	**Low**	**Average[4]**	**Month End**
		(US dollars per pound sterling)		
March 2010	1.53	1.49	1.50	1.51
April 2010	1.55	1.52	1.53	1.53
May 2010	1.53	1.43	1.47	1.45

Notes:

(1) The average of the noon buying rates on the last business day of each month during the relevant period.

(2) The last business day preceding the financial year end was 2 April 2010.

(3) The last business day preceding the financial year end was 3 April 2009.

(4) The average of the daily noon buying rates during the relevant period.

Solely for the convenience of the reader, this Base Prospectus presents translation of income statement and balance sheet data from pounds sterling into US dollars at the rate of £1.00 to $1.53, the Market Exchange Rate on 2 April 2010. These translations should not be construed as representations that pound sterling amounts actually represent such US dollar amounts or could be converted into US dollars at the rate indicated as of any of the dates mentioned in this Base Prospectus, or at all.

CAPITALISATION AND INDEBTEDNESS

The following is a summary of our consolidated capitalisation and indebtedness extracted from our audited consolidated financial statements as at 4 April 2010.

	As at 4 April 2010 *(£ millions)*
Consolidated Indebtedness[1]	
Deposits from banks	8,031
Amounts due to customers and other deposits	9,594
Debt securities in issue[2]	36,802
Total Senior Debt	54,427
Subordinated Debt[1][3]	
Comprising an issue of subordinated debt maturing in 2013 that was called and redeemed on 11 April 2008, two issues maturing in 2014, two issues maturing in 2015, two issues maturing in 2016, two issues maturing in 2018, one issue maturing in 2019 and one issue maturing in 2020	2,195
Total Senior and Subordinated Debt	56,622
Permanent Interest Bearing Shares[1][4]	
Comprising six issues of permanent interest bearing shares callable (subject to relevant supervisory consent) in 2013, 2015, 2021, 2024, 2026 and 2030, respectively	1,541
Members' Funds	
General reserve	6,363
Revaluation reserve	68
Other Reserves	(715)
UK retail member deposits[1][5]	120,943
Total members' funds	126,659
Total capitalisation[6]	184,822

Notes:

(1) If we were to go into liquidation the claims of non-member depositors and other unsubordinated creditors would rank before those of holders of UK retail member deposits and the claims of holders of UK retail member deposits would rank before those of subordinated debt holders. The claims of holders of permanent interest bearing shares rank behind those of all other creditors, including subordinated debt holders.

(2) This includes an aggregate of £4.1 billion in securities guaranteed by H.M. Treasury under the Guarantee Scheme.

(3) For consistency with other indebtedness, accrued interest of £29 million is included.

(4) For consistency with other indebtedness, accrued interest of £17 million is included.

(5) Our rules provide that members may withdraw all or any of their investments by giving appropriate notice specifying the amount to be withdrawn. Members may also make an immediate withdrawal of their investments subject to a possible loss of interest. Our Board of Directors has the power to suspend or limit the payment of withdrawals when, in its discretion, it considers it necessary.

(6) The covered bond issues are our only secured debt. The covered bonds are secured on a ring-fenced section of our residential loans and advances to customers. As at 4 April 2010, the cover pool totalled £39,917 million.

Except as otherwise disclosed in this Base Prospectus, there has been no material change in our consolidated capitalisation, indebtedness, guarantees or contingent liabilities since 4 April 2010.

SELECTED CONSOLIDATED FINANCIAL AND OPERATING INFORMATION

The following tables present selected consolidated information which has been derived from our audited consolidated financial statements as at 4 April 2010, 2009 and 2008 and for the financial years then ended.

The following data should be read in conjunction with our audited consolidated financial statements and the notes thereto incorporated by reference herein as well as the section entitled "*Management's Discussion and Analysis of Financial Condition and Results of Operations*".

	For the financial year ended 4 April			
	2010[1]	**2010**	**2009[2]**	**2008**
	($ millions)		***(£ millions)***	
Income Statement Data:				
Interest receivable and similar income	6,959	4,568	9,250	9,701
Interest expense and similar charges	4,348	2,854	7,492	7,905
Net interest income	2,611	1,714	1,758	1,796
Fees and commission income	576	378	359	333
Fees and commissions expense	(8)	(5)	(4)	(1)
Premiums on insurance contracts[3]	-	-	-	143
Fair value gains on insurance assets[3]	-	-	-	(1)
Income from investments	2	1	16	25
Other operating income	72	47	123	4
Gains/(losses) on derivatives and hedge accounting	52	34	10	(31)
Profit on sale of subsidiary undertakings	-	-	-	10
Total income	3,305	2,169	2,262	2,277
Claims on insurance contracts[3]	-	-	-	100
Total income net of claims on insurance contracts	3,305	2,169	2,262	2,177
Administrative expenses	1,820	1,195	1,252	1,169
Depreciation and amortisation expenses	230	151	126	124
Impairment losses on loans and advances to customers	836	549	394	106
Provisions for liabilities and charges	(157)	(103)	249	(10)
Impairment losses on investment securities	55	36	51	102
Profit before tax	521	341	190	686
Analysed as:				
- Profit before tax and merger and similar costs	324	212	393	745
- Financial Sector Compensation Scheme charges (FSCS)	179	117	(241)	-
- Transformation costs & gains on business combinations[4]	18	12	38	(59)
Profit before tax	521	341	190	686
Taxation	117	77	44	191
Profit for the financial year	404	264	146	495

Notes:

(1) Dollar amounts are unaudited and have been derived from our audited financial statements for the year ended 4 April 2010 using the exchange rate of US $1.52335 to £1.00.

(2) On 30 March 2009 the Society acquired the retail and wholesale deposits, branches, head office and originated residential mortgages (other than social housing loans and related deposits) of Dunfermline Building Society. As the acquisition of the core parts of Dunfermline took place immediately prior to the 4 April 2009 year end, the information required to value the

acquisition was incomplete. The initial accounting for Dunfermline was thus determined provisionally in our audited financial statements for the year ended 4 April 2009. In accordance with IFRS 3 (2008 Revised) adjustments to the initial provisional accounting for the Dunfermline Building Society disclosed in our audited financial statements for the year ended 4 April 2009 have been recognised as if the accounting for the business combination had been completed at the acquisition date. Information for the year ended 4 April 2009 has thus been adjusted, with the effects being a reduction in reported profit before tax of £22 million, a reduction in taxation of £6 million and a reduction in profit after tax of £16 million.

(3) Nationwide Group sold its life insurance subsidiary, Nationwide Life, on 31 January 2008 to Legal & General. Therefore, 2008 reflects the business of Nationwide Life up to and including 31 January 2008 only.

(4) Transformation costs and gains on business combinations for 2010 relate to the acquisition of the social housing portfolio DBS Bridge Bank Limited on 30 June 2009, which was not part of the original purchase of core parts of the Dunfermline Building Society on 30 March 2009, 2009 costs relate to the acquisitions of the Cheshire Building Society and the Derbyshire Building Society and core parts of the Dunfermline Building Society and the Derbyshire Building Society and core parts of the relate to the merger with Portman Building Society and setting up of the new distribution agreement with Legal & General.

	For the financial year ended 4 April			
	2010[1]	**2010**	**2009[2]**	**2008**
	($ millions)		(£ millions)	
Balance Sheet Data				
Assets:				
Cash and balances at central banks	6,084	3,994	8,205	3,353
Loans and advances to banks	3,073	2,017	5,033	2,838
Investment securities-available for sale	35,624	23,385	21,223	25,486
Derivative financial instruments	7,391	4,852	5,859	2,408
Fair value adjustment for portfolio hedged risk	4,019	2,638	3,408	247
Residential mortgage loans	193,942	127,313	129,916	127,103
Other loans[2]	38,261	25,116	25,553	15,701
Investments	131	86	81	61
Intangible fixed assets	538	353	211	137
Property, plant and equipment	1,395	916	886	811
Investment properties	14	9	9	15
Accrued income and expenses prepaid	118	77	743	556
Deferred tax assets	544	357	866	116
Other assets	433	284	360	191
Assets classified as held for sale	-	-	-	6
Total assets	291,567	191,397	202,353	179,029
Liabilities:				
UK retail member deposits	184,239	120,943	128,292	113,816
Deposits from banks	12,234	8,031	13,283	11,777
Other deposits	6,869	4,509	5,673	4,567
Due to customers	7,746	5,085	4,371	3,433
Debt securities in issue	56,062	36,802	34,794	33,772
Derivative financial instruments	7,528	4,942	5,986	1,202
Fair value adjustment for portfolio hedged risk	162	106	239	-
Other liabilities	806	529	671	752
Provisions for liabilities and charges	180	118	271	16
Accruals and deferred income	573	376	354	355
Subordinated liabilities	3,300	2,166	2,233	2,058
Tier 1 capital instruments	2,322	1,524	1,526	1,245
Current tax liabilities	64	42	51	(12)

	For the financial year ended 4 April			
	2010[1]	2010	2009[2]	2008
	($ millions)		(£ millions)	
Balance Sheet Data				
Retirement benefit obligations	774	508	331	40
General reserve	9,693	6,363	6,218	6,303
Revaluation reserve	104	68	69	121
Available for sale reserve	(1,089)	(715)	(2,009)	(418)
Cash flow hedge reserve	-	-	-	2
Total liabilities	291,567	191,397	202,353	179,029

Notes:

(1) Dollar amounts are unaudited and have been derived from our audited financial statements for the year ended 4 April 2010 using the exchange rate of US $1.52335 to £1.00.

(2) On 30 March 2009 the Society acquired the retail and wholesale deposits, branches, head office and originated residential mortgages (other than social housing loans and related deposits) of Dunfermline Building Society. As the acquisition of the core parts of Dunfermline took place immediately prior to the 4 April 2009 year end, the information required to value the acquisition was incomplete. The initial accounting for Dunfermline was thus determined provisionally in our audited financial statements for the year ended 4 April 2009. In accordance with IFRS 3 (2008 Revised) adjustments to the initial provisional accounting for the Dunfermline Building Society disclosed in our audited financial statements for the year ended 4 April 2009 have been recognised as if the accounting for the business combination had been completed at the acquisition date. Information for the year ended 4 April 2009 has thus been adjusted, with the effects being a reduction in reported profit before tax of £22 million, a reduction in taxation of £6 million and a reduction in profit after tax of £16 million.

(3) Other loans include loans to corporate bodies, such as independent UK housing organizations registered with the Tenant Services Authority under the Housing Act 1996 (**Registered Social Landlords**), which are residential mortgage loans where the commitment was made prior to 2 January 1998. The classification of these assets is not consistent with the treatment of similar loans made after 2 January 1998, which are included in residential mortgage loans, but is necessary to comply with the requirements of the UK Building Societies Act 1997.

	For the financial year ended 4 April		
	2010	2009[1]	2008
		(unaudited)	
Other Financial Data:			
Return on average total assets[2]	0.13%	0.08%	0.31%
Net interest margin[3]	0.87%	0.93%	1.13%
Ratio of earnings to fixed charges[4]			
Including interest on retail deposits	1.12%	1.03%	1.09%
Excluding interest on retail deposits	1.74%	1.08%	1.25%
Capital ratios			
Tier 1 capital[5]	15.3%	15.1%	9.69%
Total capital[5]	19.4%	19.5%	12.36%
Ratio of administrative expenses to mean total assets[6]	0.68%	0.72%	0.82%

Notes:

(1) Based on adjusted results for the year ended 4 April 2009. See Note 2 above under Income Statement Data and Note 2 above under Balance Sheet Data.

(2) Return on average total assets represents profit on ordinary activities after tax as a percentage of average total assets. Average balances are based on the balance as at the end of each month during the financial year.

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

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

(5) From 1 January 2008 and throughout the year ended 4 April 2010, the Nationwide Group has complied with these rules which implement the EU Capital Requirements Directive (Basel II). As at 4 April 2008 the Nationwide Group calculated its capital requirement on a Standardised basis. The Nationwide Group's Internal Ratings Based (IRB) Waiver Application was approved by the FSA in May 2008, with subsequent confirmation from the FSA that Nationwide has cleared the conditions required to use its IRB models to calculate capital requirements. As at 4 April 2009 capital requirements are calculated on this IRB basis. The Nationwide Group has also received Individual Capital Guidance (ICG) based on IRB approaches. The measurement of a bank's assets weighted according to credit risk (**Risk Weighted Assets**) differs significantly under IRB and so the stated figures for 4 April 2008 are not directly comparable with those for 4 April 2009. The Basel II Pillar 1 capital requirements are calculated using the Retail IRB approach for prime mortgages and unsecured lending; Foundation IRB approach for treasury portfolios (excluding corporates); and the Standardised approach for all other credit risk exposures.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion is based on, and should be read in conjunction with, our selected consolidated financial and operating information and our audited consolidated financial statements incorporated by reference herein. We prepared our financial statements in accordance with IFRS, which differs in certain significant respects from generally accepted accounting principles in the United States.

Overview

We are a building society, regulated by the UK Financial Services Authority. Our core business is providing personal financial services, primarily residential mortgage lending funded largely through retail savings. As a mutual organisation, we are managed for the benefit of our "members", our retail savings and residential mortgage customers, rather than for equity shareholders. We return value to our members by offering typically higher interest rates on savings and lower interest rates on loans than those offered by our main competitors. As a result, we generally earn lower pre-tax profits than our main competitors, which are primarily banks or other non-mutual organisations. As a mutual organisation, we pay no dividends, and our net earnings are put into reserves and constitute Tier 1 capital for our capital adequacy requirements. For information regarding UK capital adequacy requirements, see the subsection entitled "*—Financial Condition of the Nationwide Group—Capital Resources*".

Although our business differs from that of a bank, we are committed to a business model that is competitive with our bank and other competitors in terms of product range, service, credit quality and profitability. Over the past five fiscal years, a number of initiatives have been undertaken to more deeply embed this competitive culture, and our focus on costs continues to be a priority.

For the second year running, the UK financial services industry has faced a challenging trading environment. The UK economy only started to turn the corner in the last quarter of 2009 and the recovery still looks fragile. Housing market transactions have remained subdued and the Bank of England Base Rate (the Base Rate) has been frozen at 0.5%. Both our core mortgage and savings markets have contracted and transaction volumes have remained low.

We believe that our resilience in the face of these challenges can be seen in the strength of the financial performance we have delivered for our members. We believe that we have continued to conduct our business in a responsible manner and have maintained both a high level of liquidity and strong capital ratios. For the year ended 4 April 2010 we recorded an underlying operating profit of £212 million compared with £393 million for the year ended 4 April 2009, and have broadly maintained our underlying trading surplus, measured before impairment provisions, of £811 million compared with £846 million for the year ended 4 April 2009.

On 30 June 2009, Nationwide acquired the social housing portfolio of the former Dunfermline Building Society from DBS Bridge Bank Limited, which was not part of the original acquisition of selected assets and liabilities of the Dunfermline Building Society on 30 March 2009.

We continue to be predominantly funded through retail deposits and are the third largest savings provider in the UK based on savings balances. Although we are less reliant on the wholesale markets than many of our listed competitors, we maintain a substantial and diverse wholesale funding capability. In the year ended 4 April 2010, we have made the following wholesale issuances in the international capital markets:

- In August 2009, US$4 billion of 3 year fixed and 2.75 year floating rate bonds under the Government's Credit Guarantee Scheme;

- In September 2009, £700 million 10 year fixed rate bonds, our longest ever sterling senior issue;
- In November 2009, £2.2 billion of 5 and 7 year funding through the issue of floating and fixed rate RMBS through the Silverstone Master Trust vehicle – the Nationwide Group's first ever external securitisation;
- In January 2010, €1.25 billion 5 year bonds, which ended the Nationwide Group's absence since 2005 from the euro senior debt markets;
- In February 2010, US$0.7 billion 5 year and US$0.8 billion 10 year fixed rate bonds, which ended the Nationwide Group's absence since 2005 from the unguaranteed US dollar fixed rate debt markets.

Impact of Economic Conditions in the United Kingdom Generally

The Issuer believes the mortgages and savings market is beginning to stabilise and improve. The housing market has performed much better than expected, with house prices rising by 9.0% over the course of the year ended 4 April 2010.

Over the next six to twelve months, we expect a picture of broad stability in the housing market. The Issuer expects an increase in property supply from the extreme lows of the last year to relieve some of the upward pressure on prices and lead to a relatively flat trend in property values. Unless there is a significant spike in interest rates, we believe that a major dip in prices is unlikely over the next year. At the same time, the upside potential for house prices is limited by the high level of prices relative to household earnings and the more restricted availability of mortgage credit relative to pre-crisis levels.

Evidence from the early months of 2010 suggests that the UK household savings market is beginning to improve. However, low real interest rates are leading many households to direct funds toward debt reduction or investments in the equity markets rather than to bank and building society deposits. This relative weakness in the savings market accentuates the need for continuation of the recovery in long-term wholesale funding markets, which will be necessary to support availability of credit and the repayment by the industry of Government sponsored funding schemes due to mature during 2011 and 2012.

The Nationwide Group's net interest income declined 3% and the Nationwide Group's net interest margin has declined 6 basis points to 0.87% in the year ended 4 April 2010 compared with the prior year. The reduction in net interest margin reflects a combination of lower net interest income and a 4% growth in the average size of the balance sheet following the mergers with Cheshire and Derbyshire, and the acquisition of core parts of Dunfermline.

	For the year ended 4 April	
	2010	**2009**
	(£ millions, except percentages)	
Net interest income	1,714	1,758
Weighted average total assets	197,320	189,624
Net interest margin	**0.87%**	**0.93%**

The Nationwide Group's net interest margin in the six months ended 30 September 2009 was 0.91%. This declined to 0.83% in the second half of the financial year ended 4 April 2010, resulting in a margin of 0.87% for the entire financial year. The results for the year ended 4 April 2010 have been supported by gains of £91 million arising from the management of our liquidity portfolio, of which £75 million was recognised in the first half of the year. These gains are the equivalent of 5 basis points on the full year margin. Without these gains, the net interest margin would have reduced to 0.83% in the first half of the year, and remained broadly stable for the second half of the year at 0.81%, with an 11 basis points full year reduction compared with the prior year margin of 0.93%.

The main factor driving the reduction in margin has been the increased cost of retail funding, reflecting the competitive savings market and the progressive re-pricing of long term wholesale funding. This has been partly offset by wider spreads on new mortgage pricing, the impact of which has been limited as liabilities continue to reprice faster than the asset side of the balance sheet due to very low levels of re-mortgage activity and our Base Mortgage Rate (BMR) commitment to existing borrowers referred to below.

The net interest margin has been constrained by our commitment to our historic BMR cap, which guarantees that our BMR mortgage will be no more than 200 basis points above the Bank of England Base Rate. See "*Description of Business-Lending – UK Residential Mortgage Lending to Individuals*". It also reflects the fact that customers have continued to benefit from our decision to implement the mortgage tracker floor when our Base Rate reached 2%, 0.75% below their contractual floor limit of 2.75%, saving our members over £100 million in mortgage interest over the course of the year ended 4 April 2010.

The Issuer believes that the underlying quality of our lending remains strong, but it is inevitably affected by recessionary conditions and falling asset values in the commercial sector. The impairment charge in the year ended 4 April 2010 of £89 million on residential lending is primarily related to specialist lending and is slightly lower than the charge in the year ended 4 April 2009 as an increase in cases with longer dated arrears levels has been partly offset by lower early arrears and higher indexed property valuations. We believe that the low average loan to value (LTV) profile of our prime residential mortgages is making them more resilient to external market conditions and unemployment than specialist and commercial mortgages.

In our commercial lending division, ongoing difficult market conditions resulted in an increase in commercial loan defaults in the year ended 4 April 2010. However, signs of improvement have been seen in the second half of the financial year as the growth in impairments began to slow. The increase in defaults in the year ended 4 April 2010 has been triggered by tenant failures and our borrowers' subsequent inability to service loans, along with covenant breaches on LTVs and business failures on owner occupied properties.

Our total commercial portfolio includes £266 million of subordinated exposures of which £124 million are provided for, and the Nationwide Group's residual exposure to subordinated loans is therefore restricted to the unprovided balances of £142 million (consisting of 6 cases), which are currently fully performing. Within this portfolio, for loans that Nationwide originated (i.e., excluding loans acquired via the mergers with Cheshire and Derbyshire, and the Dunfermline acquisition), the subordinated exposure is £197 million, of which £88 million is now fully provided.

The overall level of provision for commercial lending as a percentage of Nationwide originated loans is 1.97% (4 April 2009: 0.92%) and the provision coverage ratio against balances more than three months in arrears is 48% (4 April 2009: 62%).

The Issuer believes that the underlying performance of its unsecured lending remains strong. The increase in the charge for unsecured lending is due to two specific changes that we made to our assessment of provisions, to better reflect prevailing conditions, rather than being due to a change in underlying performance of these assets.

The continuation of margin compression and exposure to both retail and commercial loan impairment charges resulting from the impact of general economic conditions, which we do not expect to abate significantly in the short term, means that we expect the lower levels of profitability that we have experienced in the last eighteen months to continue throughout the year ending 4 April 2011, and there remains the possibility of further downward pressure on profitability depending on a number of influences, such as the consequences of a more austere economic environment.

The dislocations in the financial markets have also resulted in our recording in the Issuer's results for the last 3 financial years impairment charges and negative fair value adjustments with respect to securities and other investments held. Although the Issuer believe that overall impairments for the Nationwide Group have peaked, asset valuations in future periods, reflecting prevailing market conditions, may result in further

negative changes in the fair values of the Nationwide Group's investment assets and these may also translate into increased impairments. In addition, the value that the Issuer realises for its securities and other investments may be lower than the current fair value. Any of these factors could require us to record further negative fair value adjustments, which may have a material adverse effect on our operating results, financial condition or prospects.

Interest Rate Management

Because the majority of our 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 our interest income and interest expense. Fluctuations in market interest rates, however, give us the opportunity to manage our interest rate margins and, for most of our assets and liabilities, we can reprice the interest rate that we offer, subject to market and competitive pressures.

The following table sets forth the daily average three-month sterling LIBOR rates (11:00 a.m. British Bankers Association fixing) and average Bank of England base rates for the financial years ended 4 April 2010, 2009 and 2008:

	For the financial year ended 4 April		
	2010	**2009**	**2008**
Daily average three-month sterling LIBOR	0.85%	4.56%	6.06%
Average Bank of England base rate	0.50%	3.57%	5.53%

The spread between the Bank of England base rate and LIBOR has narrowed during the last financial year as the financial crisis has eased and market liquidity has improved. The Bank of England's qualitative easing program has also played a role in reducing the Base-Rate LIBOR spread, as the newly created liquidity has put downward pressure on market interest rates. There is a risk that the Base-Rate LIBOR spread will widen again if and when monetary policy is tightened.

The contractual terms of products and transactions determine the flexibility to manage net interest margin. Following substantial falls in Sterling interest rates, this flexibility has been constrained by a natural floor, at 0% for savings rates, and a contractual ceiling for certain mortgage rates, relative to the base rate.

The sudden lowering of interest rates has also exposed the Nationwide Group to changes in customer behaviour, driven by associated changes in the financial dynamics of transactions, with respect to drawdown of mortgage applications and early repayment of fixed rate mortgages.

The Nationwide Group's exposure to mismatch between base rate and LIBOR-linked balances has reduced during the year ended 4 April 2010 reflecting increased customer preference for tracker and BMR mortgages, and for fixed rate savings bonds.

Results of Operations for the Year Ended 4 April 2010 Compared with the Year Ended 4 April 2009

Introduction

The past financial year has been marked by unprecedented and exceptional market conditions, with problems arising in the financial services industry spreading to the broader economy. We believe that Nationwide's performance has demonstrated resilience borne out of our strong customer franchise, our low risk appetite and our well capitalised balance sheet. These factors have underpinned our performance with an underlying profit before tax for the year ended 4 April 2010 of £212 million. Underlying profit before tax equates to reported profit before tax adjusted for the add back of movements in the value of derivatives and hedge accounting, FSCS levy releases, transformation costs and gains on business combinations.

Profit before tax on a reported basis and underlying basis are set out below. Certain aspects of results are presented to reflect management's view of underlying results and to provide a clearer representation of the performance of the Nationwide Group.

	For the year ended 4 April 2010				
	As reported	**Fair value and other adjustments**	**FSCS cost**	**Transformation and business combinations**	**Underlying profit before tax**
			(£ millions)		
Net interest income	1,714	-	-	-	1,714
Other income	421	-	-	(40)	381
Fair value adjustments from derivatives and hedge accounting	34	(34)	-	-	-
Total income net of claims on insurance contracts	2,169	(34)	-	(40)	2,095
Administrative expenses	1,195	-	-	(62)	1,133
Depreciation and amortisation	151	-	-	-	151
Impairment losses on loans and advances to customers	549	-	-	-	549
Provisions for liabilities and charges	(103)	-	117	-	14
Impairment losses on investment securities	36	-	-	-	36
Profit before tax	341	(34)	(117)	22	212

	For the year ended 4 April 2009				
	As reported	**Fair value and other adjustments**	**FSCS cost**	**Transformation and business combinations**	**Underlying profit before tax**
			(£ millions)		
Net interest income	1,758	-	-	-	1,758
Other income	494	-	-	(135)	359
Fair value adjustments from derivatives and hedge accounting	10	(10)	-	-	-
Total income net of claims on insurance contracts	2,262	(10)	-	(135)	2,117
Administrative expenses	1,252	-	-	(107)	1,145
Depreciation and amortisation	126	-	-	-	126
Impairment losses on loans and advances to customers	394	-	-	-	394
Provisions for liabilities and charges	249	-	(241)	-	8
Impairment losses on investment securities	51	-	-	-	51
Profit before tax	190	(10)	241	(28)	393

The following discussion considers our results for the year ended 4 April 2010 compared to our results for the year ended 4 April 2009.

Total income net of claims on insurance contracts

Our total income decreased by 4.1% in the year ended 4 April 2010 to £2,169 million from £2,262 million in the year ended 4 April 2009. The following table sets forth the components of income for the years ended 4 April 2010 and 4 April 2009, respectively.

	For the year ended 4 April	
	2010	2009
	(£ millions)	
Net interest income	1,714	1,758
Net fees and commissions	373	355
Income from investments	1	16
Other operating income	47	123
Gains from derivatives and hedge accounting	34	10
Total	2,169	2,262

Net interest income

Net interest income decreased by 2.5% to £1,714 million for the year ended 4 April 2010 compared with £1,758 million for the year ended 4 April 2009.

The following table sets forth the components of net interest income for the years ended 4 April 2010 and 2009, respectively.

	For the year ended 4 April	
	2010	2009
	(£ millions)	
Interest and similar income:		
On residential mortgages	5,289	6,473
On other loans	1,150	1,526
On investment securities	1,056	1,249
On other liquid assets	47	261
Other interest receivable	-	-
Net (expense) on financial instruments hedging assets	(3,116)	(410)
Expected return on pension assets	122	151
Foreign exchange difference	20	-
Total interest and similar income	4,568	9,250
Interest expense and similar charges:		
On UK retail member deposits	(2,326)	(4,724)
On subscribed capital.	(96)	(85)
On deposits and other borrowings:		
Subordinated liabilities	(95)	(93)
Other	(384)	(1,130)
Debt securities in issue	(884)	(1,376)
Net income on financial instruments hedging liabilities	1,077	61
Pension interest cost	(146)	(141)
Total interest expense and similar charges	(2,854)	(7,492)
Net interest income	1,714	1,758

Interest and similar income

Interest and similar income decreased by 50.6% to £4,568 million in the year ended 4 April 2010 from £9,250 million in the year ended 4 April 2009.

On residential mortgages

Interest on residential mortgages decreased by 18.3% to £5,289 million in the year ended 4 April 2010 from £6,473 million in the year ended 4 April 2009. The reduction in income is largely attributable to a decrease in average interest rates between the two periods from 5.24% for the year ended 4 April 2009 to 3.83% for the year ended 4 April 2010. This decrease in our average interest rates reflects the fall in the Bank of England base rate during the year ended 4 April 2009 to a historic low of 0.5%. The Bank of England base rate remained at 0.5% throughout the year ended 4 April 2010. The decrease in interest rates has been partly offset by a 4.6% increase in the size of our average residential mortgage portfolio to £138,005 million in the year ended 4 April 2010 from £131,982 million in the year ended 4 April 2009. The growth in residential mortgages reflects balances acquired on the acquisition of the Cheshire, Derbyshire and Dunfermline building societies countered by active management of the balance sheet in the year, adjusting our business flows in response to the recessionary conditions and the significant contraction in the market.

On other loans

Interest on other loans includes interest income that we earned from commercial loans, credit card lending, unsecured personal loans and current account overdrafts. Interest on other loans decreased by 24.6% to £1,150 million in the year ended 4 April 2010 from £1,526 million in the year ended 4 April 2009. Again, decreases in interest rates as a result of reductions in the Bank of England base rate between the two periods have driven income down.

On investment securities

Interest and other income from investment securities comprises interest income earned on the corporate and government investment securities that we purchase for our own account to manage our liquidity portfolios and net realised gains and losses on our sales of these instruments.

Interest and other income from investment securities decreased by 15.5% to £1,056 million for the year ended 4 April 2010 compared with £1,249 million for the year ended 4 April 2009. This decrease is due to a fall of 3.0% in the average balance of securities held in both the investment and liquidity portfolios to £23,780 million in the year ended 4 April 2010 from £24,523 million for the year ended 4 April 2009 combined with a decrease in the average interest rate earned on such assets to 2.22% in the year ended 4 April 2010, compared to 4.99% for the year ended 4 April 2009. The decrease in average interest rates is a direct result of decreases in market rates between the two periods.

Net income/expense on financial instruments hedging assets

We use derivative instruments 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 the year ended 4 April 2010, we incurred a net expense of £3,116 million on financial instruments used to hedge our fixed rate assets compared with net income of £410 million in the year ended 4 April 2009. As LIBOR rates have remained below the levels seen during the year ended 4 April 2009, the floating rate income on these financial instruments has reduced significantly resulting in an overall cost to the Nationwide Group.

Expected return on pension assets

Under IFRS, interest earned on pension fund assets is recognised in interest and similar income and the release of discounts on pension fund liabilities is recognised in interest expense and similar charges in the income statement. These amounts are calculated by an independent actuary using accepted methodology and agreed assumptions.

Interest expense and similar charges

Interest expense and similar charges decreased by 61.9% in the year ended 4 April 2010 to £2,854 million from £7,492 million in the year ended 4 April 2009.

On UK retail member deposits

Interest on UK retail member deposits includes interest that we pay on UK savings and current accounts held by our members. Interest on UK retail member deposits decreased by 50.8% to £2,326 million in the year ended 4 April 2010 from £4,724 million in the year ended 4 April 2009.

This decrease was mainly due to a fall in the average interest rate that we paid to depositors to 1.9% for the year ended 4 April 2010 compared with 3.93% in the year ended 4 April 2009. This decrease was due to the fall in the Bank of England base rate. The decrease was partly offset by a 2.4% growth in the average balance of UK retail member deposits held to £122,999 million in the year ended 4 April 2010 from £120,139 million in the year ended 4 April 2009. The growth in UK retail member deposits reflects balances acquired on the acquisition of the Derbyshire, Cheshire and Dunfermline Building Societies totalling £9,986 million countered by active management of the balance sheet to reflect the managed outflow of retail savings during the year ended 4 April 2010. We have actively managed our flow of retail savings during the year ended to achieve a balance between securing funds at an economic rate and providing value to our members. During the first half of the year, intense competition in a contracting market let to a decision to allow a £5.6 billion net outflow of funds. Overall, the year has seen a managed outflow from the savings book of £7.3 billion.

On deposits and other borrowings

Interest expense on deposits and other borrowings includes interest that we pay on subordinated debt instruments and other deposits and borrowings. In the year ended 4 April 2010 interest on subordinated liabilities increased by 2.2% to £95 million from £93 million in the year ended 4 April 2009. Average balances were £2,144 million for the year ended 4 April 2010 and £1,936 million for the year ended 4 April 2009. The increase in both balance and interest was due to additional subordinated debt being taken on when Nationwide Building Society merged with Derbyshire and Cheshire building societies in December 2008. The interest rates on our subordinated liabilities are fixed and therefore not affected by changes in market interest rates.

Other interest expense on deposits and other borrowings include the interest that we pay on retail deposits by non-members, deposits from other banks and other money market deposits. In the year ended 4 April 2010, other interest expense on deposits and other borrowings decreased by 66.0% to £384 million from £1,130 million in the year ended 4 April 2009. This reduction is due to a combination of the fall in market interest rates together with a decrease in the average monthly balance of deposits and other borrowings, excluding subordinated liabilities, of 14.9% to £20,609 million in the year ended 4 April 2010 compared with £24,227 million in the year ended 4 April 2009.

Debt securities in issue

Debt securities in issue include interest that we pay on certificates of deposit, time deposits, commercial paper and medium-term notes. In the year ended 4 April 2010, interest expense on debt securities in issue decreased by 35.8% to £884 million from £1,376 million in the year ended 4 April 2009. The average monthly balance of debt securities in issue increased by 16.1% to £37,937 million in the year ended 4 April 2010, compared with £32,663 million in the year ended 4 April 2009. However, the average interest rate paid before adjusting for income/expense on financial instruments hedging liabilities reduced to 1.14% for the year ended 4 April 2010, compared with 4.33% for the year ended 4 April 2009.

Net income/expense on financial instruments hedging liabilities

We use 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/expense on financial instruments hedging liabilities". In the year ended 4 April 2010, net income on financial instruments used to hedge our fixed rate liabilities was £1,077 million, compared with a net income of £61 million in the year ended 4 April 2009.

Net fees and commissions

The following table sets forth the components of net fees and commissions for the years ended 4 April 2010 and 2009 respectively:

	For the year ended 4 April	
	2010	**2009**
	(£ millions)	
Fee and commission income:		
Mortgage related fees	28	24
Banking and savings fees	153	161
General insurance fees.	124	124
Other fees and commissions	73	50
Total fee and commission income	378	359
Fee and commission expense:		
Mortgage related fees	1	1
Other fees and commissions	4	3
Total fee and commission expense	5	4
Net fee and commission income	373	355

Income from net fees and commissions consists of income that we earn from lending, banking and savings fees and insurance sales commissions less lending fees and commission expense.

In the year ended 4 April 2010, net fees and commissions increased by 5.1% to £373 million compared with £355 million in the year ended 4 April 2009. Other fees and commissions increased to £73 million in the year ended 4 April 2010 compared to £50 million in the year ended 4 April 2009. This increase is due to higher levels of income from the sale of insurance and investment products as in the current low interest rate environment customers have turned to equity-based products for higher returns. Overall unit sales of protection and investment products have increased by almost 60% in the year ended 4 April 2010 compared with the previous year.

Other operating income

In the year ended 4 April 2010, other operating income decreased by 61.8% to £47 million, compared with £123 million in the year ended 4 April 2009. Other operating income for the year ended 4 April 2010 includes a £40 million gain on the Dunfermline Social Housing portfolio which was acquired from DBS Bridge Bank Limited on 30 June 2009. Other operating income for the year ended 4 April 2009 includes £89 million gain on acquisition of the Cheshire Building Society and £46 million gain on acquisition of core parts of the Dunfermline Building Society

Gains/losses on derivates and hedge accounting

All derivatives entered into by Nationwide are recorded on the balance sheet at fair value with any fair value movements accounted for in the income statement. Derivatives are only used to limit the extent to which we

could be affected by changes in interest rates, exchange rates or other factors specified in building society legislation. 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 fair value of the underlying asset or liability being hedged. Any ineffectiveness arising from different movements in fair value will likely trend to zero over time.

In addition, we enter 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 from derivatives and hedge accounting".

Gains from derivative and hedge accounting were £34 million in the year ended 4 April 2010 compared to gains of £10 million in the year ended 4 April 2009.

Operating expenses and similar charges

Operating expenses and similar charges decreased by 11.8% in the year ended 4 April 2010 to £1,828 million from £2,072 million in the year ended 4 April 2009. The following table sets forth the components of operating expenses and similar charges for the years ended 4 April 2010 and 2009, respectively.

	For the year ended 4 April	
	2010	**2009**
	(£ millions)	
Administrative expenses	1,195	1,252
Depreciation and amortisation	151	126
Impairment losses on loans and advances to customers	549	394
Provisions for liabilities and charges	(103)	249
Impairment losses on investment securities	36	51
Total	1,828	2,072

Administrative Expenses

Administrative expenses decreased by 4.6% in the year ended 4 April 2010 to £1,195 million from £1,252 million in the year ended 4 April 2009. Administrative expenses as a percentage of total average assets decreased to 0.61% in the year ended 4 April 2010 from 0.66% in the year ended 4 April 2009.

The following table sets forth the components of administrative expenses for the years ended 4 April 2010 and 2009, respectively.

	For the year ended 4 April	
	2010	**2009**
	(£ millions)	
Employee costs:		
Salaries and social security costs	513	505
Pension costs	71	94
Other administrative costs	611	653
Total	1,195	1,252

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

In the year ended 4 April 2010, salaries and social security costs increased by 1.6% to £513 million from £505 million in the year ended 4 April 2009. The increase was primarily due to typical annual salary increases and merit-based salary increases to some employees. In addition, during the second half of the financial year ended 4 April 2009, there was an increase in staff numbers caused by 1,895 staff that transferred to Nationwide on the acquisition of the Derbyshire, Cheshire and Dunfermline building societies. During the year ended 4 April 2010 synergies and our ongoing focus on efficiency savings have enabled some reductions in headcount across the Nationwide Group.

Within employee costs, the pension charge decreased by 24.5% to £71 million for the year ended 4 April 2010 from £94 million in the year ended 4 April 2009. The decrease in pension costs is due to a decrease in past service costs, and a shift in membership from defined benefit to defined contribution arrangements, together with changes in actuarial assumptions.

The Nationwide Group operates defined benefit arrangements and defined contribution arrangements. The principal defined benefit pension arrangement is the Nationwide Pension Fund. This is a contributory defined benefit arrangement, with two main sections. The final salary section was closed to new entrants in 2001 and the career average revalued earnings (**CARE**) section was closed to new entrants on 31 May 2007. Since that date, new employees have the option of joining a new defined contribution arrangement.

The valuation of the Nationwide Pension Fund as at 4 April 2010 resulted in a deficit of £497 million (4 April 2009: £282 million) using the methodology set out in IAS 19. Our total retirement benefit liability under IAS 19, including other schemes, was £508 million as at 4 April 2010 (4 April 2009: £331 million). The Nationwide Group did not take over the defined benefit arrangements of the Dunfermline Building Society and the Portman Building Society defined benefit scheme was merged into the Nationwide Pension Fund in October 2009. We have been actively managing our retirement benefit liability and have taken a number of steps to contain and reduce the deficit over time:

- Final Salary arrangements closed to new members since 2001 and CARE arrangements closed in May 2007;
- Employee contributions (final salary arrangements) increased from 5% to 7% on 1 July 2006;
- Special contributions of £200 million were paid in the period 2005/06 – 2007/08;
- Transfers in and new Additional Voluntary Contribution (AVC) arrangements were stopped from 31 December 2009; and
- The Pension Trustees continue to work closely with their advisors to optimise the investment strategy for the schemes' assets.

We will continue to review our options to manage the pension schemes in a responsible way. The next full triennial valuation of the Nationwide Pension Fund is expected to be carried out as at 31 March 2010. The results will not be available until later in the year, after which a plan will be agreed between the Pension Trustee board and the Nationwide Group to manage the ongoing retirement benefit liability.

Other administrative costs decreased by 6.4% to £611 million for the year ended 4 April 2010 from £653 million for the year ended 4 April 2009. The expenses for the years ended 4 April 2010 and 4 April 2009 include £62 million and £107 million, respectively, of transformation costs relating to the acquisitions of the Derbyshire, Cheshire and Dunfermline building societies and the restructuring of parts of our business. These costs are "one off" in nature and are therefore excluded from the calculation of underlying / ongoing profit. Other main categories of expenditure include advertising and marketing, postage and communications, rent and associated taxes, computer hardware maintenance, property maintenance, ATM costs and equipment leasing.

Ongoing other administration costs have remained broadly flat at £549 million for the year ended 4 April 2010 compared to £546 million for the year ended 4 April 2009. This reflects our commitment and ability to manage our cost base despite the increased administrative support required to address the growth in the average balance sheet of 3.7% to £197,428 million as at 4 April 2010 from £190,437 million as at 4 April 2009. Cost control has been achieved through a number of measures including cost synergies and an ongoing focus on efficiency savings across the Nationwide Group.

Depreciation and amortisation

For the year ended 4 April 2010, depreciation and amortisation expenses increased by £25 million to £151 million compared to £126 million for the year ended 4 April 2009. The increase results from the depreciation charged on assets acquired from the Cheshire, Derbyshire and Dunfermline building societies together with higher levels of spending on assets with shorter depreciable lives such as technology in recent years.

Impairment losses on loans and advances to customers

We assess 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 are experiencing significant financial difficulty or default or delinquency in interest or principal payments.

Impairment losses on loans and advances to customers for the year ended 4 April 2010 increased by 39.3% to £549 million from £394 million for the year ended 4 April 2009.

The following table analyses the impairment losses on loans and advances to customers for the years ended 4 April 2010 and 2009, respectively.

	For the year ended 4 April	
	2010	**2009**
	(£ millions)	
Residential mortgages	89	91
Commercial lending	299	171
Unsecured lending	126	113
Other secured lending	35	19
Total	549	394

The impairment loss on loans to customers of £549 million for the year ended 4 April 2010 is significantly more than the £394 million charge for the year ended 4 April 2009, though the charge over the second half of the year ended 4 April 2010 of £232 million is markedly less than the first half charge of £317 million in the first half of the year. We believe that the underlying quality of our lending remains strong but is inevitably affected by recessionary conditions and falling asset values in the commercial sector.

The charge of £89 million for the year ended 4 April 2010 on residential mortgages is primarily related to specialist lending and is slightly lower than the £91 million charge for the year ended 4 April 2009 as an increase in cases with longer dated arrears has been partly offset by lower early arrears and higher indexed property valuations. The charge on the prime book has increased to £10 million for the year ended 4 April 2010 from £4 million for the year ended 4 April 2009, with the high quality and low average LTV profile of our prime mortgages making them more resilient to external market conditions and unemployment than specialist and commercial mortgages. Residential mortgages impairment provisions held on balance sheet increased by 32% to £160 million for the year ended 4 April 2010 from £121 million for the year ended 4 April 2009, and the residential mortgages provision as a percentage of total residential mortgages increased

to 0.13% as compared to 0.10% in the year ended 4 April 2009. In the same period residential mortgages balances more than three months in arrears increased by 4%.

In our commercial lending division, ongoing difficult market conditions resulted in an increase in commercial loan defaults and a charge of £299 million for the year ended 4 April 2010 compared with £171 million in the year ended 4 April 2009. Signs of improvement have been seen in the second half of the year ended 4 April 2010 as the growth in impairments began to slow, resulting in a charge of £119 million in the second half of the year ended 4 April 2010 compared with £180 million for the first half and £146 million in the second half of the year ended 4 April 2009. The increase in defaults in the year ended 4 April 2010 has been triggered by tenant failures and our borrowers' subsequent inability to service loans, along with covenant breaches on LTV requirements and business failures on owner occupied properties.

Our total commercial portfolio includes £266 million of subordinated exposures of which £124 million are provided for, and the Nationwide Group's residual exposure to subordinated loans is therefore restricted to the unprovided balances of £142 million (consisting of 6 cases), which are currently fully performing. Within this portfolio, for loans that Nationwide originated (i.e., excluding loans acquired via the mergers with the Derbyshire and Cheshire and the Dunfermline acquisition), the subordinated exposure is £197 million, of which £88 million is now fully provided.

The overall level of provision for commercial lending as a percentage of Nationwide originated commercial lending loans has increased to 1.97% as at 4 April 2010 compared with 0.92% as at 4 April 2009.

The charge of £35 million for the year ended 4 April 2010 for other secured lending is in respect of a portfolio of European commercial loans acquired by our Treasury Division. The portfolio is managed on our behalf by a leading European investment manager.

The impairment charge for unsecured lending increased to £126 million for the year ended 4 April 2010 compared with £113 million for the year ended 4 April 2009. This increase is due to two specific changes that we made to our assessment of provisions, to better reflect prevailing conditions, rather than being due to a change in underlying performance of these assets. The charge for the year ended 4 April 2009 included the benefit of a one-time reduction to the provision for up to date assets and the charge for the year ended 4 April 2010 includes a significantly higher provision for cases subject to litigation. The underlying performance of unsecured lending remains strong and reflects our cautious approach and prudence in our underwriting.

Provisions for liabilities and charges

The following table sets forth the components of provisions for contingent liabilities and commitments for the years ended 4 April 2010 and 2009, respectively.

	For the years ended April 4	
	2010	**2009**
	(£ millions)	
Financial Services Compensation Scheme (FSCS)	(117)	241
Loyalty benefits	14	8
Total	(103)	249

Provisions of £117 million relating to the FSCS for contingent liabilities and commitments were released in the year ended 4 April 2010. This compares to a charge of £241 million in the year ended 4 April 2009. The FSCS provision is to meet expected levies payable on the Nationwide Group's estimated share of interest on loans received by the FSCS from HM Treasury in respect of scheme years ending on and before 31 March 2011. During the year ended 4 April 2010 the FSCS provision calculation methodology has altered to align Nationwide's approach with emerging industry consensus. In addition there has been a significant reduction in the calculated provision due principally to interest rates being lower than previously anticipated.

For further information on the FSCS see "*Description of Business-Financial Services Compensation Scheme*".

Impairment losses on investment securities

Under IAS 39: Financial Instruments: Recognition and Measurement (**IAS 39**), provisions against investment securities are made where there is objective evidence of impairment at the balance sheet date.

During the year ended 4 April 2010, an impairment loss of £36 million was recognised compared with an impairment loss of £51 million in the year ended 4 April 2009. The impairment provision for the year ended 4 April 2010, consists of £29 million impairment on a small number of US RMBS exposures and £7 million in respect of a private equity portfolio. The impairment loss for the year ended 4 April 2009 included £34 million in respect of a senior unsecured exposure to Washington Mutual Bank which went into Federal Deposit Insurance Corporation (**FDIC**) Receivership, £3 million in respect of Lehman Brothers and £12 million for Icelandic banks.

Taxes

Tax on our profit on ordinary activities for the year ended 4 April 2010 amounted to £77 million based on our reported profit on ordinary activities before tax of £341 million, reflecting an effective tax rate of 22.6% as compared with the prevailing UK corporation tax rate of 28%.

For the year ended 4 April 2009, tax on our profit on ordinary activities amounted to £44 million based on our reported profit on ordinary activities of £190 million, reflecting an effective tax rate of 23.1% as compared with the prevailing UK corporation tax rate of 28%. The lower effective tax rate is due principally to adjustments to amounts provided in respect of prior periods.

Balance Sheet Review

Loans and advances to customers

Our lending remains predominantly concentrated on prime quality secured products, with residential mortgages (both prime and specialist) accounting for 83.5% of our total loans and advances to customers (4 April 2009: 83.8%), commercial lending 14.6% (4 April 2009: 14.2%), and consumer banking 1.5% (4 April 2009: 1.6%). Sub prime lending within Specialist residential mortgages accounts for just 0.4% of all lending. The mix of lending as at 4 April 2010 has remained broadly consistent with that reported as at 4 April 2009. The following table sets forth the breakdown of loans and advances to customers as at 4 April 2010 and 4 April 2009.

	Loans and advances to customers			
	4 April 2010		**4 April 2009**	
	£bn	**%**	**£bn**	**%**
Prime residential mortgages	108.7	71.3	111.9	72.1
Specialist residential mortgages	18.7	12.2	18.2	11.7
Total residential mortgages	127.4	83.5	130.1	83.8
Consumer banking	2.3	1.5	2.4	1.6
Retail loan portfolio	129.7	85.0	132.5	85.4
Commercial lending	22.2	14.6	22.1	14.2
Other operations lending	0.6	0.4	0.6	0.4
Gross balances	152.5	100.0	155.2	100.0
Impairment provisions	(0.8)		(0.4)	
Fair value adjustments for micro hedged risk	0.7		0.7	
Total	152.4		155.5	

Retail loan portfolio

The retail loan portfolio is predominantly made up of £127.4 billion of residential mortgages (4 April 2009: £130.1 billion) with £2.3 billion of consumer banking lending (4 April 2009: £2.4 billion). By their nature, our retail lending books comprise a large number of smaller loans, have low volatility of credit risk outcomes and are intrinsically highly diversified.

Prime residential mortgages are primarily Nationwide branded advances made through our branch network and intermediary channels. In addition, our balance sheet includes prime residential mortgages totalling £4.5 billion which were brought on to our balance sheet following our acquisitions of the Cheshire, Derbyshire and Dunfermline portfolios.

The make up of specialist residential lending is as follows:

	2010		2009	
	£bn	**%**	£bn	%
Self-certified	**4.5**	**24**	4.9	27
Buy to Let	**12.3**	**66**	11.2	61
Near prime	**1.4**	**7**	1.6	9
Sub prime	**0.5**	**3**	0.5	3
Specialist lending	**18.7**	**100**	18.2	100

Near prime is defined as a borrower with a County Court Judgment (**CCJ**) or default less than or equal to £1,000 or one missed mortgage payment in the last 12 months. Sub prime lending is defined as a borrower with a CCJ or default in excess of £1,000 or more than one missed mortgage payment in the last 12 months.

Specialist lending operates through TMW, primarily in the Buy to Let and self-certification markets with a very small exposure to the near prime sub prime markets. Just 3%, or approximately £0.5 billion, relates to sub-prime, of which £0.4 billion was acquired as part of the mergers with Dunfermline, Cheshire, and Derbyshire Building Societies, and was subject to fair value assessment at acquisition. In addition, the portfolio contains other assets acquired from the Cheshire, Derbyshire and Dunfermline Building Societies along with assets originated under our UCB brand.

Specialist residential mortgages as at 4 April 2010 were made up of £15.7 billion of advances made through our specialist lending brands, The Mortgage Works (TMW) and UCB Home Loans (UCB), and £3.0 billion arising from the acquisitions of the Cheshire, Derbyshire and Dunfermline specialist lending brands.

Gross prime residential lending in the year ended 4 April 2010 amounted to £10.3 billion compared to £16.7 billion in the year ended 4 April 2009. Specialist residential lending in the years ended 4 April 2010 and 4 April 2009 of £1.7 billion and £2.2 billion, respectively, was almost exclusively in the Buy to Let sector with insignificant amounts of self-certified lending and no sub or near prime lending.

Residential mortgages are only secured against UK properties. The Nationwide Group operates across the whole of the UK with a bias towards the South East of England and Greater London, reflecting the concentration of branches in that region and historically higher asset value growth trends. As at 4 April 2010 around 34% (4 April 2009: 34%) of the residential mortgage book was made up of exposures concentrated in the South East and Greater London.

	Nationwide and Society	**Group**
	2010	2009
	%	%
South East England (excluding London)	**12**	12

Central England	**22**	22
Northern England	**19**	19
Greater London	**22**	22
South West England	**9**	9
Scotland	**9**	9
Wales and Northern Ireland	**7**	7
Total	**100**	100

We continued to focus on affordability and loan-to-value (LTV) ratios in underwriting residential mortgages during the year ended 4 April 2010. The average LTV of residential mortgages completed in the year ended 4 April 2010 was 63% (year ended 4 April 2009: 60%), whilst the average indexed LTV of residential mortgages as at 4 April 2010 has fallen to 48% from 52% as at 4 April 2009. The value of residential property is updated on a quarterly basis to reflect changes in the Nationwide house price index. The following table sets forth a breakdown of the LTV analysis of our residential mortgage portfolio as at 4 April 2010 and 4 April 2009.

	Loan to value analysis	
	4 April 2010	**4 April 2009**
	%	%
Total portfolio of residential mortgages		
<50%	54	51
50% - 60%	10	9
60% - 70%	10	9
70% - 80%	10	9
80% - 90%	8	8
90% - 100%	6	8
> 100%	2	6
	100	100
Average LTV of stock (indexed)	**48**	52
Average LTV of new business*	**63**	60
New business profile:		
First-time buyers	**26**	15
Home movers	**38**	27
Remortgagers	**18**	50
Buy to Let	**18**	8
	100	100

The analysis of the new business profile as at 4 April 2009 has been amended to exclude further advances, which were previously included in remortgages. The analysis as at 4 April 2010 likewise excludes further advances. Further advances have also been excluded from the analyses of the average loan to value of new business.

The table below presents residential mortgages three months or more in arrears as a percentage of our total residential mortgage portfolio, and shows a small increase in arrears in prime mortgages and a reduction in arrears in specialist mortgages with respect to Nationwide-originated mortgages at 4 April 2010 from 4 April 2009, compared with a broadly static industry measure. Overall, we have maintained our very favourable position compared to the industry on both Nationwide-originated business and lending including acquired loans. The modest increase in prime residential mortgage arrears has been driven by external pressures impacting customers' abilities to meet their mortgage repayments combined with our collections and forbearance strategies to work with customers to avoid possession where possible. Specialist residential

mortgages originated by Nationwide continue to perform well and remain broadly in line with the industry measure (that includes prime residential mortgages).

Cases three months or more in arrears as % of total book of residential mortgages	**4 April 2010**	**4 April 2009**
	%	%
Nationwide-originated residential mortgages:		
Prime	0.52	0.49
Specialist	2.28	2.45
Total Nationwide-originated residential mortgages	0.68	0.64
Nationwide Group residential mortgages[(1)]:		
Prime	0.54	0.51
Specialist	3.37	3.72
Total Nationwide Group residential mortgages	0.82	0.80
Industry average	2.22	2.41

(1) Includes residential mortgages acquired from the Cheshire, Derbyshire, and Dunfermline Building Societies.

The percentage of cases three months or more in arrears as a percentage of the total book for prime mortgages is now based on the CML definition, which calculates months in arrears by dividing the arrears balance by the latest contractual payment. Previously, our arrears had been based on the number of missed payments, and so comparative figures at 4 April 2009 have been restated accordingly. The effect of the restatements was to increase the 4 April 2009 figures for Nationwide-originated mortgages and Nationwide Group mortgages by 4 basis points.

Residential mortgage assets acquired with Cheshire, Derbyshire and Dunfermline's brands were fair valued at acquisition on a basis which included a credit risk adjustment of £199 million for anticipated losses over the remaining life of the loans. To date, £49 million of losses have been written off and, as reported at 4 April 2009, we continue to believe it is unlikely that these loans will contribute any significant losses to the Nationwide Group in excess of the fair value allowance made at the time of acquisition. Accordingly in evaluating the Nationwide Group's exposure to losses, as well as the quality of its underwriting process, we believe that it is relevant to focus on arrears levels excluding rather than including the effect of acquired assets.

The number of Nationwide Group borrowers in possession, including borrowers under residential mortgages acquired from Cheshire, Derbyshire, and Dunfermline Building Societies, of 967 represented 0.069% of the total residential mortgage portfolio at 4 April 2010, compared to 1,248 Nationwide Group borrowers in possession, or 0.087% of the total residential mortgage portfolio at 4 April 2009. As buy to let borrowers may have more than one property, possession measures are slightly higher on a property basis but, at 1,088 properties, representing 0.077% of our book at 4 April 2010 compared with 1,441 properties representing 0.100% of the book at 4 April 2009, this compares very favourably with the industry measure of 0.127% at 4 April 2010 (4 April 2009: 0.211%). Excluding the impact of residential mortgages from the acquired societies, our position relative to the industry is even more favourable. The table below shows possessions as a percentage of our residential mortgage portfolio for both Nationwide-originated and total Nationwide Group residential mortgages.

Possessions as % of total book of residential mortgages (number of borrowers)	**4 April 2010**	**4 April 2009**
	%	%
Nationwide originated residential mortgages:		
Prime	0.021	0.021
Specialist	0.414	0.500

Total Nationwide originated residential mortgages	0.055	0.058
Nationwide Group residential mortgages:[1]		
Prime	0.021	0.022
Specialist	0.497	0.741
Total Nationwide Group residential mortgages	0.069	0.087

Note:

(1) Includes residential mortgages acquired from the Cheshire, Derbyshire, and Dunfermline Building Societies:

Our approach to dealing with customers in financial difficulties, combined with our historically cautious approach to lending, means that we only take possession of properties as a last resort. This is demonstrated by the number of properties taken into possession compared with the total for the industry. During the year ended 4 April 2010, 1,280 Nationwide originated properties were taken into possession representing only 2.89% of properties taken in by the industry as a whole against our residential mortgage market share of 11.58%. This compares with the experience for the year ended 4 April 2009 when 941 properties, representing 2.10% of the total for the industry, were taken into possession compared with our share of 11.72%.

The table below provides further information on the retail loan portfolio (including residential mortgages and consumer banking) by payment due status:

	As at 4 April									
	2010					2009				
	Prime lending	**Specialist lending**	**Consumer banking**	**Total**		Prime lending	Specialist lending	Consumer banking	Total	
	£bn	**£bn**	**£bn**	**£bn**	**%**	£bn	£bn	£bn	£bn	%
Not impaired:										
Neither past due nor impaired	**106.3**	**16.5**	**2.1**	**124.9**	**96**	109.5	15.7	2.2	127.4	96
Past due up to 3 months but not impaired	**1.9**	**1.2**	**0.0**	**3.1**	**3**	1.9	1.4	0.1	3.4	3
Impaired	**0.5**	**1.0**	**0.2**	**1.7**	**1**	0.5	1.1	0.1	1.7	1
Total	**108.7**	**18.7**	**2.3**	**129.7**	**100**	111.9	18.2	2.4	132.5	100

The status "past due up to 3 months but not impaired" includes any asset where a payment due under strict contractual terms is received late or missed. The amount included is the entire financial asset balance rather than just the payment overdue.

Loans in the analysis above which are less than 3 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 Cheshire, Derbyshire and Dunfermline Building Societies have been fair valued on a basis which makes allowances for anticipated losses over the remaining life of the loans. Impaired loans totalling £403 million in the above analysis for 4 April 2010 have thus been fair valued and are therefore unlikely to contribute any significant further losses to the Nationwide Group.

Impaired retails loans are broken down further in the following table:

	As at 4 April,							
	2010				2009			
	Prime	**Specialis**	**Consumer**	**Total**	Prime	Specialist	Consumer	Total

	lending	t lending	banking			lending	lending	banking		
	£m	£m	£m	£m	%	£m	£m	£m	£m	%
Impaired status:										
Past due 3 to 6 months...	**280**	**342**	**60**	**682**	**39**	262	443	61	766	44
Past due 6 to 12 months.	**174**	**282**	**67**	**523**	**30**	147	320	66	533	30
Past due over 12 months	**81**	**222**	**45**	**348**	**20**	59	117	32	208	12
Possessions	**30**	**160**	**-**	**190**	**11**	34	215	-	249	14
Total	**565**	**1,006**	**172**	**1,743**	**100**	502	1,095	159	1,756	100

Possession balances represent properties of which Nationwide has taken ownership pending their sale.

£329 million (4 April 2009: £94 million) of retails loans that would otherwise be categorised as past due or impaired have had their terms renegotiated or capitalised in the last 12 months. Customers with arrears are only permitted to renegotiate where they have demonstrated their ability to meet a repayment schedule at normal commercial terms for a continuous six month period.

The following table presents collateral held against past due or impaired retail residential mortgages:

	As at 4 April							
	2010				2009			
	Prime lending		**Specialist lending**		Prime lending		Specialist lending	
	£m	**%**	**£m**	**%**	£m	%	£m	%
Past due but not impaired...	**1,884**	**100**	**1,159**	**99**	1,904	100	1,323	99
Impaired.....	**532**	**99**	**829**	**98**	465	99	862	98
Possessions.....	**29**	**97**	**150**	**94**	33	97	206	96
	2,445	**100**	**2,138**	**98**	2,402	100	2,391	98

Collateral held in relation to secured loans that are either past due or impaired is capped to the amount outstanding on an individual loan basis. The percentages, in the table above represent the cover over the impaired asset.

The following table presents negative equity on residential mortgages:

	As at 4 April,			
	2010		2009	
	Prime lending	**Specialist lending**	Prime lending	Specialist lending
	£m	**£m**	£m	£m
Past due but not impaired.....	**5**	**10**	7	17
Impaired.....	**3**	**17**	3	18
Possessions.....	**1**	**10**	1	9
Total	**9**	**37**	11	44

In consumer banking personal loans and credit cards have arrears levels significantly lower than averages for the industry (**FLA** and **APACS**) as shown in the table below, which presents the percentage of personal loans and credit card accounts more than 30 days in arrears:

	2010 Nationwide	**2010 Industry**	2009 Nationwide	2009 Industry[(1)]
Personal loans	**7.07**	**19.6**	7.15	15.8
Credit card.....	**5.15**	**6.64**	5.70	8.06

Note

(1) Industry numbers for Personal Loans and Credit Cards for the prior period have been restated by the FLA and APACS respectively.

Commercial and other operations loan portfolio

Commercial lending comprises loans secured on commercial property, loans to Registered Social Landlords and loans advanced under Government supported Private Finance Initiatives with gross lending totalling £1.8 billion during the year. However, higher than expected capital repayments and redemptions have resulted in the size of the commercial loan portfolio remaining virtually unchanged during the year ended 4 April 2010, and all new lending was made in lower risk sectors on a very selective basis. During the year we also redefined our asset preferences to exclude housebuilder, equity, subordinated and/or European lending. Balances for other operations lending include a secured European commercial loan portfolio of £299 million (4 April 2009: £369 million) and unsecured lending of £277 million (4 April 2009: £311 million) relating to a student loan portfolio. These investments were acquired by Treasury Division and are therefore held within the Head office functions.

Our commercial loan portfolio of £22.2 billion (April 4, 2009: £22.1 billion) comprises the following:

	As at 4 April			
	2010		2009	
	£bn	**%**	£bn	%
Property finance	**13.0**	**58**	13.7	62
Registered Social Landlords	**7.9**	**36**	7.2	33
Private Finance Initiative	**1.3**	**6**	1.2	5
Total	**22.2**	**100**	22.1	100

Loans to Registered Social Landlords are secured on residential property, and loans advanced under the Private Finance Initiative are secured on cash flows from Government backed contracts. We have never suffered losses on our lending in these markets, and there are currently no arrears of three months or more on these portfolios.

Property finance lending is well diversified by industry type and an analysis is provided in the following table:

	As at 4 April,			
	2010		2009	
	£bn	**%**	£bn	%
Retail	**4.3**	**33**	4.1	30
Office	**3.0**	**23**	3.2	23
Residential	**2.0**	**15**	2.5	18
Industrial and warehouse	**2.0**	**15**	2.1	16
Leisure and hotel	**1.1**	**9**	1.0	7
Owner occupied	**0.3**	**3**	0.7	5
Other	**0.3**	**2**	0.1	1
Total	**13.0**	**100**	13.7	100

In terms of counterparty concentration, the largest single commercial lending customer, including undrawn commitments, represents only 1% (4 April 2009: 1%) of the total commercial loan portfolio.

Our commercial loan portfolio of £22.2 billion at 4 April 2010 (4 April 2009: £22.1 billion) consists of £20.9 billion (4 April 2009: £21.1 billion) of Nationwide-originated lending and £1.3 billion (4 April 2009: £1.0 billion) of commercial loans acquired from Derbyshire, Cheshire and Dunfermline building societies. Our Nationwide-originated portfolio comprises £12.5 billion of property finance secured on commercial property , £7.1 billion advanced to Registered Social Landlords and £1.3 billion advanced under the Private Finance Initiative (PFI). The £0.3 billion increase in acquired assets arose on the post-merger acquisition of the social housing portfolio of the former Dunfermline Building Society, which occurred on 30 June 2009. There are currently no arrears of three months or more on the Registered Social Landlord and PFI portfolios and we believe that our property finance portfolio is well diversified by industry type and by borrower. In terms of Nationwide-originated lending we have only modest exposure to development finance with total balances of £155 million, and a total further commitment of £47 million, relating to three office developments in the centre of London.

The Nationwide-originated commercial loan portfolio includes £197 million of subordinated exposures, of which £88 million are impaired and fully provided for. The Nationwide Group's residual exposure to these subordinated loans is therefore restricted to the unprovided balances of £109 million (which consist of 5 cases) which are currently fully performing.

The number of Nationwide originated property finance loans more than three months in arrears increased from 179 loans at 4 April 2009 to 285 at 4 April 2010. This equates to 2.77% of Nationwide-originated commercial loans (4 April 2009: 1.62%). Total arrears balances on these loans at 4 April 2010 were £42 million (4 April 2009: £17 million). Robust arrears management is carried out by dedicated teams who, supported by daily arrears reporting, maintain a focus on early intervention to maximise economic value and mitigate losses.

Commercial mortgage loans totaling £1.3 billion acquired through mergers with the Cheshire and Derbyshire Building Societies and the acquisition of the Dunfermline Building Society's social housing portfolio have been fair valued in the same way as described for residential assets above, including a credit risk adjustment of £179 million for anticipated losses over the remaining life of the loans, none of which relates to Dunfermline's social housing portfolio. A loan loss impairment charge of £10 million was raised in the year ended 4 April 2010 as 12 individually assessed cases had an impairment provision requirement in excess of the original fair value adjustment. However, in most cases, the credit risk adjustment exceeds the current impairment provision requirement and we continue to believe that acquired loans are unlikely to contribute any significant net losses to the Nationwide Group over their lifetime.

Although we continue to expect difficult market conditions, and further impairment provisions, we remain confident that our commercial loan portfolio, which is primarily focused on what we believe is low risk lending, will perform better than most and this, combined with proactive management, should ensure that commercial lending continues to make a positive long term contribution to the Nationwide Group.

The table below provides further information on the commercial and other operations loan portfolio by payment due status:

	As at 4 April							
	2010				2009			
	Commercial		**Other operations**		Commercial		Other operations	
	£bn	**%**	**£bn**	**%**	£bn	%	£bn	%
Neither past due nor impaired	**20.9**	**94**	**0.6**	**100**	21.1	95	0.6	100
Past due up to 3 months but not impaired	**0.4**	**2**	**-**	**-**	0.6	3	-	-
Impaired	**0.9**	**4**	**-**	**-**	0.4	2	-	-
Total	**22.2**	**100**	**0.6**	**100**	22.1	100	0.6	100

The status "past due up to 3 months but not impaired" includes any asset where a payment due under strict contractual terms is received late or missed. The amount included is the entire financial asset rather than just the payment overdue.

Loans in the analysis above which are less than 3 months past due have collective impairment allowances set aside to cover credit losses on loans which are in the early stages of arrears. This analysis includes commercial mortgage loans totaling £1.3 billion acquired through the acquisitions of the Cheshire, Derbyshire and Dunfermline Building Societies. These loans have been fair valued on a basis which makes credit loss adjustments, totalling £165 million, for anticipated losses over the remaining life of the loans. We therefore believe these loans should not contribute any significant losses to the Nationwide Group for the foreseeable future.

Impaired commercial and other operations loans are further analyzed in the following table:

	As at 4 April							
	2010				2009			
	Commercial		**Other operations**		Commercial		Other operations	
	£m	**%**	**£m**	**%**	£m	%	£m	%
Impaired status:								
Past due 3 to 6 months	**291**	**31**	**14**	**42**	118	31	6	40
Past due 6 to 12 months	**397**	**43**	**15**	**46**	229	60	4	27
Past due over 12 months	**238**	**26**	**4**	**12**	21	6	5	33
Possessions	**-**	**-**	**-**	**-**	12	3	-	-
Total	**926**	**100**	**33**	**100**	380	100	15	100

Commercial loans totaling £960 million (2009: £359 million) have individual provisions against them. This includes cases which are not more than 3 months past due.

Otherwise Possession balances represent properties of which Nationwide has taken ownership pending their sale.

£175 million (2009: £257 million) of commercial and other operations loans that would otherwise be categorised as past due or impaired have had their terms renegotiated in the last 12 months. In addition, we may restructure maturing loans and those with actual or potential covenant breaches. In these cases, the renegotiated payments of capital and interest do not indicate impairment.

The following table presents collateral held against past due or impaired commercial loans:

	As at 4 April			
	2010	**2010**	2009	2009
	£m	**%**	£m	%
Past due but not impaired	**382**	**97**	521	94
Impaired	**834**	**90**	341	93
Possessions	**-**	**-**	12	100
	1,216	**92**	874	94

Collateral held in relation to secured loans that are either past due or impaired is capped to the amount outstanding on an individual loan basis. The percentages in the table above represent the cover over the impaired asset.

The following table presents negative equity on commercial and other operations loans:

	As at 4 April	
	2010	2009
	£m	£m
Past due but not impaired	**11**	34
Impaired	**92**	27
Possessions	**-**	-
Total	**103**	61

There are £38 million (4 April 2009: £21 million) past due or impaired balances classified above as other operations. Of this, £27 million (4 April 2009: £6 million) relates to the European commercial loan portfolio which is secured on the business assets of the borrower. Collateral in respect of these assets is £25 million (4 April 2009: £1 million).

Funding

The retail savings environment in the UK has become hugely competitive as many financial institutions sought to compensate for a lack of access in wholesale markets by focusing efforts on attracting retail deposits. Generally, this has been achieved by offering extremely attractive rates to generate demand. Nationwide has not responded in kind to this change in approach since the Nationwide Group aims to offer good value over the longer term to its members. As a consequence members' balances fell by £7.3 billion in the year ended 4 April 2010 to £120.9 billion and reliance on highly volatile rate sensitive retail balances was reduced. The reduction in share balances occurred predominantly over the first seven months of the financial year with balances then progressively stabilising and then increasing over the last two months of the financial year.

Over the course of the year ended 4 April 2010 wholesale funding balances also decreased such that the wholesale funding level ended at 27.8% compared with 28.6% at 4 April 2009. The stronger second half performance in the second half of the year ended 4 April 2010 of retail funding and the reduction in the size of the balance sheet has prompted this decline, despite the small increase that we recorded at 30 September 2009.

Over the year ended 4 April 2010, the loan to deposit ratio increased to 116.8% (4 April 2009: 112.4%). However, the loan to deposit and long term funding ratio reduced over this same period, from 100.4% to 100.2%. Pending international consensus on an appropriate stable funding ratio definition, the Nationwide Group does not set a target for either of these ratios but given that the former does not reflect the term of deposits, we believe the latter is a more appropriate representation of the structural development of the balance sheet during the year.

The following table shows the change in the makeup of our wholesale funding portfolio.

Wholesale Funding portfolio mix	**As at 4 April 2010**	**As at 4 April 2009**
	%	%
Repo and other secured agreements	16.0	25.8
Deposits	12.4	12.4
Certificates of deposit	12.4	16.6
Commercial paper	13.0	9.9
Covered bonds	18.4	17.9
Medium term notes	20.5	16.1
Securitisations	4.5	-
Other non-retail	2.8	1.3

Total	100.0	100.0

The reduction in the absolute amount of wholesale funding and in the wholesale funding ratio in the year ended 4 April 2010 is a function of the overall management of the Nationwide's balance sheet, as we have controlled the level and quality of lending undertaken. However, we have also experienced much improved access to wholesale funding in the capital markets as market instability eased during the year ended 4 April 2010.

Over the course of the year ended 4 April 2010 the Nationwide Group was active in the term debt capital markets and issued £8.5 billion equivalent of term unsecured and secured debt relative to £4 billion equivalent of maturing term debt. This has enabled the Nationwide Group to both extend the maturity profile of its wholesale funding portfolio from 21 months to 26 months and to increase the split of the portfolio between short and long term (i.e., > 1 year remaining maturity – as illustrated in the wholesale funding residual maturity table below). Long term refinancing requirements for the Nationwide Group remain modest for the current financial year ending 4 April 2011, with only £1.8 billion equivalent of wholesale debt maturing in that period.

The following term issuances during the year demonstrate both the strength of institutional support and the breadth of funding diversity for Nationwide:

- In August 2009, US$4 billion of 3 year fixed and 2.75 year floating rate bonds under the Government's Credit Guarantee Scheme;
- In September 2009, £700 million 10 year fixed rate bonds, our longest ever sterling senior issue;
- In November 2009, £2.2 billion of 5 and 7 year funding through the issue of floating and fixed rate RMBS through the Silverstone Master Trust vehicle – the Nationwide Group's first ever external securitisation;
- In January 2010, €1.25 billion 5 year bonds, which ended the Nationwide Group's absence since 2005 from the euro senior debt markets;
- In February 2010, US$0.7 billion 5 year and US$0.8 billion 10 year fixed rate bonds, which ended the Nationwide Group's absence since 2005 from the unguaranteed US dollar fixed rate debt markets.

The Nationwide Group has reduced the amount of short term funding it holds to £16 billion at 4 April 2010 compared to £20 billion at 4 April 2009, but still enjoys a strong franchise in these markets, which is reflected in the average term at issuance of the short term funding book, being 155 days at 4 April 2010 (4 April 2009: 125 days).

The table below sets out the residual maturity of the wholesale funding book:

Wholesale funding residual maturity	**As at 4 April 2010**		**As at 4 April 2009**	
	£bn	**%**	**£bn**	**%**
Less than one year	24.5	49.7	34.0	63.3
One to two years	4.3	8.8	4.5	8.4
Two to five years	11.7	23.6	10.5	19.6
More than five years	8.8	17.9	4.7	8.7
Total	**49.3**	**100.0**	**53.7**	**100.0**

Our short and long term credit ratings from the major rating agencies as at 25 May 2010 are as follows:

	Long Term	Short Term	Subordinated	Date of last rating action[1]
Standard & Poor's	A+	A-1	BBB+	July 2009
Moody's	Aa3	P-1	Baa3	April 2009
Fitch	AA-	F1+	A	October 2009
DBRS	AA	R-1 (middle)	AA (low)	March 2009

Note:

(1) *The current outlook from Moody's is stable. The outlook from Standard & Poor's, Fitch and DBRS is negative.*

Treasury Assets

Nationwide Group treasury assets at 4 April 2010 were £29.4 billion compared with £34.5 billion at 4 April 2009 and are held in two separate portfolios: the liquidity portfolio and the investment portfolio. At 4 April 2010, the liquidity portfolio totalled £25.7 billion compared with £31.1 billion at 4 April 2009 with the investment portfolio totalling £3.7 billion compared with £3.4 billion at 4 April 2009.

We have continued to manage the liquidity portfolio to increase the quality and liquidity of the assets with 63% of the portfolio held in sovereign and supranational exposures compared with 50% as at 4 April 2009. Over 99% of the portfolio is rated A or better with 85% rated AA or above compared with 99% rated A or better and 78% rated AA or better at 4 April 2009.

The following tables show the breakdown of the liquidity portfolio at 4 April 2010 and 4 April 2009 by credit rating and geography:

		Credit Rating				Geography			
Liquidity Portfolio	**As at 4 April 2010 £bn**	AAA %	AA %	A %	Other %	UK %	US %	Europe %	Other %
Cash and balances with the Bank of England	4.0	100	-	-	-	100	-	-	-
Loans to financial institutions	1.7	-	36	59	5	78	1	5	16
Other (including items in transit and clearing accounts)	0.3	-	-	-	-	100	-	-	-
Non AFS Assets	**6.0**								
Gilts	6.4	100	-	-	-	100	-	-	-
Non Domestic Government Bonds	3.9	100	-	-	-	-	43	57	-
Supranational bonds	2.0	100	-	-	-	-	2	98	-
Residential mortgage backed securities (RMBS)	2.7	96	4	-	-	43	-	52	5
Covered bonds	0.9	89	11	-	-	-	3	90	7
Floating rate notes	3.8	4	25	610	10	26	3	57	14
Certificates of deposit and commercial paper	-	-	-	-	-	-	-	-	-
AFS Assets	19.7								

Total liquidity portfolio ..	25.7	78	7	14	1	55	7	34	4	

		Credit Rating				Geography			
Liquidity Portfolio	**As at 4 April 2009 £bn**	**AAA %**	**AA %**	**A %**	**BBB %**	**UK %**	**US %**	**Europe %**	**Other %**
Cash and balances with the Bank of England	8.2	100	-	-	-	100	-	-	-
Loans to financial institutions	4.7	-	48	52	-	89	-	1	10
Other (including items in transit and clearing accounts)	0.4	-	-	-	-	100	-	-	-
Non AFS Assets	**13.3**								
Gilts	4.7	100	-	-	-	100	-	-	-
Non domestic government bonds	0.6								
Supranational bonds	1.9	100		-	-	-	5	95	-
Residential mortgage backed securities – RMBS	2.7	99	1	-	-	40	-	53	7
Covered bonds	0.9	86	14	-	-	-	3	91	6
Floating rate notes	6.0	23	23	52	2	34	2	54	10
Certificates of deposit and commercial paper	1.0	-	25	75	-	100	-	-	-
AFS Assets	17.8								
Total liquidity portfolio	31.1	64	14	22	0	70	1	25	4

Ratings are obtained from S&P in the majority of cases or from Moody's if there is no S&P rating available, Internal ratings are used if neither S&P nor Moody's ratings are available.

We have no direct sovereign exposure to GIIPS.

Amounts shown above in respect of RMBS and covered bonds include securities collateralised on assets originated in GIIPS amounting in aggregate to £1.6 billion at 4 April 2010, of which 93% by value is secured on prime collateral, and 99% is rated AAA (89%) or AA (10%). As part of our normal credit risk management process we monitor all secured investments by reference to assumptions made on collateral performance at the time of investment. To date we have seen little evidence of deterioration in the performance of these investments, and we do not currently anticipate any impairments within this secured portfolio.

At 4 April 2010 we also had £1.2 billion of medium term note exposures to financial institutions based in GIIPS, including £20 million to institutions in Greece, £208 million to institutions in Ireland, £221 million to institutions in Italy, £101 million to institutions in Portugal and £692 million to institutions in Spain. 85% of these note exposures are rated A (63%) or AA (22%) and the weighted average maturity of these exposures is less than 3 years.

The treasury investment portfolio was originally established to generate additional income for the Nationwide Group. Over 87% of the investment portfolio at 4 April 2010 is rated A or better (4 April 2009: 97%) with over 69% rated AA or better (4 April 2009: 76%). In light of current market conditions, we have not actively sought to expand the portfolio and we are managing the existing portfolio to minimise potential risk. During the year ended 4 April 2010, £0.5 billion of paydowns have been received relating to the asset and mortgage backed securities held by the Nationwide Group. The increase in the fair value of the portfolio to £3.7 billion at 4 April 2010 (4 April 2009: £3.4 billion) is therefore due to improved pricing reflecting market recovery.

The following tables show a breakdown of the investment portfolio at 4 April 2010 and 4 April 2009 by credit rating and geography:

		Credit Rating				Geography			
Investment Portfolio all AFS assets	**As at 4 April 2010 £bn**	AAA %	AA %	A %	Other %	UK %	US %	Europe %	Other %
Collateralised debt obligations (CDO)	0.1	-	-	-	100	-	100	-	-
Collateralised loan obligations (CLO).....	0.6	33	59	8	-	25	75	-	-
Commercial mortgage backed securities	0.6	60	19	11	10	47	14	39	-
Corporate bond portfolio	0.1	-	13	17	70	36	28	36	-
Credit card backed securities	0.3	99	-	-	1	42	58	-	-
Financial institutions including subordinated debt	0.7	-	22	64	14	21	33	39	7
Other corporate bonds..	-	-	34	66	-	100	-	-	-
Residential mortgage backed securities (RMBS).....	0.3	24	23	23	30	61	36	3	-
US student loan	0.8	98	1	1	-	-	100	-	-
Other investments.....	0.2	38	21	15	26	11	47	33	9
Total.....	3.7	49	20	18	13	27	55	16	2

		Credit Rating				Geography			
Investment Portfolio – all AFS assets	**As at 4 April 2009 £bn**	AAA %	AA %	A %	Other %	UK %	US %	Europe %	Other %
Collateralized debt obligations – CDO	0.1	5	-	-	95	-	100	-	-
Collateralized loan obligations - CLO	0.5	100	-	-	-	26	70	4	-
Commercial mortgage backed securities	0.6	92	7	1	-	50	11	39	-
Corporate bond portfolio	0.2	13	7	80	-	17	16	67	-
Credit card backed securities	0.3	97	3	-	-	47	53	-	-
Financial institutions including subordinated debt	0.6	-	26	69	5	22	35	36	7
Other corporate bonds	-	-	46	54	-	100	-	-	-
Retail mortgage backed securities – RMBS	0.2	54	22	17	7	55	39	6	-
US student loan	0.7	98	1	1	-	-	100	-	-
Other investments	0.2	30	30	37	3	17	45	35	3
Total	3.4	65	11	21	3	27	52	19	2

Ratings are obtained from S&P in the majority of cases or from Moody's if there is no S&P rating available, , Internal ratings are used if neither S&P nor Moody's ratings are available. Where exposures exist with a UK branch of a non-UK counterparty these have been recorded as UK exposures.

An independent monthly review is undertaken by Nationwide's Risk Management Division on the current and expected future performance of all treasury assets. A governance structure exists to identify and review underperforming assets and highlight the likelihood of future losses. In accordance with accounting standards, assets are considered impaired where there is objective evidence that current events and/or performance trends will result in a loss.

There have been no material changes in the profile of the investment portfolio over the course of the year ended 4 April 2010 and additional detail on the more significant exposures is set out below. The portfolio has experienced some negative rating migration as a result of the on-going implementation of rating agency methodology changes and continued collateral deterioration particularly for CMBS and US RMBS. However, the overall credit quality remains strong with only a low level of impairment incurred.

Included under financial institutions, RMBS and other investments above are GIIPS related exposures totalling £152 million as at 4 April 2010, of which £65 million relates to subordinated loans to financial institutions (£34 million to institutions in Ireland, £11 million to institutions in Italy and £20 million to institutions in Portugal). The remaining balance relates to secured or highly rated bank exposure.

At 4 April 2010 Nationwide had £100 million of exposure to monoline wrapped transactions, which are shown above under their underlying holdings. For all but £2 million of these holdings, we anticipate full repayment without any assistance from the wrap provider. This is mainly as a result of the approach taken upon investment, where we placed no reliance on the wrap, requiring the investment to stand up to credit analysis in its own right.

In addition, as shown in the table above, at 4 April 2010, CLOs comprise £575 million of senior positions. 92% of this portfolio retains a AA or AAA rating. Our focus on the selection of strong managers has provided some protection from downward rating migration. 60% of the CMBS portfolio is AAA rated. The portfolio consists of exposures to established commercial real estate markets with the bulk of our holdings in the UK and Germany. Underlying collateral consists of office, retail, industrial and warehouse exposures with experienced sponsors supporting the underlying loans. Included in the financial institutions portfolio are £462 million of subordinated lower tier two bonds that were acquired as part of the process of eliminating SIV capital note investments. Total investment holdings in RMBS are £338 million and the £121 million of US exposure is made up of prime and Alt A RMBS. 17% of this US portfolio retains a AAA rating. The US student loan portfolio comprises 67% FFELP (Federal Family Education Loan Programme) originated loans which are 98% guaranteed by the US government, and 33% alternative student loans.

In assessing impairment, the Nationwide Group evaluates among other factors, the normal volatility in valuation, evidence of deterioration in the financial health of the investee, industry and sector performance and operational and financing cash flows. An impairment loss of £29 million (2009: £48 million) has been recognized in the income statement in respect of the prudential and investment portfolios. In addition, an impairment charge of £7 million (2009: nil) has been recognized on investments in equity shares.

Collateral held as security for Treasury assets is determined by the nature of the instrument. Loans, debt securities, treasury and other eligible bills are generally unsecured with the exception of asset backed securities and similar instruments, which are secured by pools of financial assets. In addition, in 2009, collateral, predominantly gilts, is held under reverse sale and repurchase agreements.

The fair value of derivative assets as at 4 April 2010 was £4.9 billion (2009: £5.9 billion). Additional information on these assets is set out in note 17 to our 2010 audited consolidated financial statements incorporated by reference herein). The International Swaps and Derivatives Association, Inc. (**ISDA**) Master

Agreement is Nationwide's preferred agreement for documenting derivative activity. It is common for a Credit Support Annex (**CSA**) to be executed in conjunction with the ISDA Master Agreement. Under a CSA, cash collateral is passed between parties to mitigate the market contingent counterparty risk inherent in the outstanding positions. Where cash collateral is received to mitigate the risk inherent in amounts due to us, it is included as a liability within deposits from banks. Where cash collateral is given to mitigate the risk inherent in amounts due from us, it is included as an asset in loans and advances to banks.

Netting arrangements do not generally result in an offset of balance sheet assets and liabilities, as transactions are usually settled on a gross basis. The Nationwide Group's legal documentation for derivative transactions grants legal rights of set-off for those transactions. Accordingly, the credit risk associated with such contracts is reduced to the extent that negative mark to market values on derivatives will offset positive mark to market values on derivatives in the calculation of credit risk, subject to an absolute exposure of zero.

Cash collateral on certain derivative assets with a fair value of £2.0 billion (2009: £2.3 billion) is only triggered when the counterparty rating falls to a specified rating level. These counterparties are all AA rated banks and therefore the credit risk attaching to these banks should materially already be factored into the LIBOR curve used to fair value those positions.

As a consequence of the above, no credit valuation adjustment is made on derivative assets nor has any debit valuation adjustment to reflect own credit risk been taken in our derivative liabilities.

Available for sale reserve

Out of a total of £29.4 billion of treasury assets held in the prudential and investment portfolios as at 4 April 2010, £23.4 billion are held as available for sale (**AFS**) and under IFRS they are marked to market though other comprehensive income and fair value movements are accumulated in reserves. The non AFS assets are predominantly short term loans to financial institutions or deposits with the Bank of England. Of the £23.4 billion of AFS assets, only £106 million are classified as Level 3 (not based on observable market data) for the purposes of IFRS 7.

The fair value movements of AFS assets that are not impaired have no effect on the Nationwide Group's profit for the period or its regulatory capital. The assets have been carefully reviewed based upon latest performance data and an impairment charge of £29 million has been booked against AFS assets with a further £7 million against private equity held as part of our small investment in an equity shares portfolio which has total outstandings of £58 million and further commitments of £47 million.

As at 4 April 2010, the balance on the AFS reserve had improved to £715 million negative, net of tax compared with £2,009 million negative as at 4 April 2009. The improvement in the AFS reserve is primarily a function of improvement in the pricing of RMBS, US student loans and financial institutions as market sentiment has improved.

The following table shows the breakdown of AFS reserves as at 4 April 2010 and 4 April 2009.

	Cumulative AFS Reserve 4 April 2010	**Fair Value on balance sheet 4 April 2010**	Cumulative AFS Reserve 4 April 2009	Fair Value on balance sheet 4 April 2009
	£bn	**£bn**	£bn	£bn
Gilts and Supranational bonds	(0.3)	12.3	(0.3)	7.2
Residential mortgage backed securities (RMBS)	0.2	2.7	0.7	2.7
Covered bonds and floating rate notes	0.1	4.7	0.3	6.9
Certificates of deposit and commercial paper	-	-	-	1.0
Liquidity portfolio	**-**	**19.7**	0.7	17.8
Collateralised debt obligations (CDO)	-	0.1	0.1	0.1
Collateralised loan obligations (CLO)	0.1	0.6	0.2	0.5

	Cumulative AFS Reserve 4 April 2010	Fair Value on balance sheet 4 April 2010	Cumulative AFS Reserve 4 April 2009	Fair Value on balance sheet 4 April 2009
	£bn	**£bn**	£bn	£bn
Commercial mortgage backed securities	0.3	0.6	0.3	0.6
Corporate bond portfolio	-	0.1	-	0.2
Credit card backed securities	-	0.3	0.1	0.3
Financial institutions including sub debt	-	0.7	0.2	0.6
Residential mortgage backed securities (RMBS)	0.1	0.3	0.3	0.2
US student loan	0.1	0.8	0.3	0.7
Other investments	0.1	0.2	0.1	0.2
Investment Portfolio	**0.7**	**3.7**	1.6	3.4
Negative AFS reserve before hedge accounting and taxation	**0.7**		2.3	
AFS Assets		**23.4**		21.2
Hedge accounting adjustment for interest rate risk	0.3		0.5	
Taxation	(0.3)		(0.8)	
Negative AFS reserve	**0.7**		2.0	

In October 2008, the IASB issued an amendment to IAS 39, allowing assets to be reclassified from AFS to loans and receivables. The Nationwide Group has not reclassified any assets in this way.

Classification of financial assets and liabilities

The tables below summarize the classification of carrying amounts of the Nationwide Group's primary financial assets and liabilities.

As at 4 April 2010 Nationwide Group	**Liabilities at amortized cost £m**	**Available for Sale £m**	**Loans and Receivables £m**	**Fair value through Income Statement (including Derivatives) £m**	**Total £m**
Financial Assets					
Cash and balances with the Bank of England	**-**	**3,994**	**-**	**-**	**3,994**
Loans and advances to banks	**-**	**2,017**	**-**	**-**	**2,017**
Investment securities	**23,385**	**-**	**-**	**-**	**23,385**
Derivative financial instruments	**-**	**-**	**4,852**	**-**	**4,852**
Loans and Advances to customers	**-**	**152,429**	**-**	**-**	**152,429**
Fair value adjustment for portfolio hedged risk	**-**	**2,638**	**-**	**-**	**2,638**
Investments in equity shares	**86**	**-**	**-**	**-**	**86**
Other financial assets[(1)]	**-**	**-**	**167**	**-**	**167**
Total Financial Assets	**23,471**	**161,078**	**5,019**	**-**	**189,568**
Other non-financial assets					**1,829**
Total Assets					**191,397**
Financial Liabilities					
Shares	**-**	**-**	**-**	**120,943**	**120,943**
Deposits from banks	**-**	**-**	**-**	**8,031**	**8,031**
Other deposits	**-**	**-**	**1,128**	**3,381**	**4,509**
Due to customers	**-**	**-**	**-**	**5,085**	**5,085**
Debt securities in issue	**-**	**-**	**-**	**36,802**	**36,802**
Fair value adjustment for portfolio hedged risk	**-**	**106**	**-**	**-**	**106**
Derivative financial instruments	**-**	**-**	**4,942**	**-**	**4,942**
Subordinated liabilities	**-**	**-**	**-**	**2,166**	**2,166**

Subscribed capital	-	-	-	**1,524**	**1,524**
Total Financial Liabilities	**-**	**106**	**6,070**	**177,932**	**184,108**
Corporation tax					**42**
Other non financial liabilities					**1,531**
Total Liabilities					**185,681**

Note:

(1) Other financial assets represents fair value movement in mortgage commitments entered into where a loan has not yet been made.

As at 4 April 2009 (as adjusted) Nationwide Group	Available for sale £m	Loans and receivables £m	Fair value through income statement £m	Liabilities at amortised cost £m	Total £m
Financial assets					
Cash and balances with the Bank of England	-	8,205	-	-	8,205
Loans and advances to banks	-	5,033	-	-	5,033
Investment securities	21,223	-	-	-	21,223
Derivative financial instruments	-	-	5,859	-	5,859
Loans and advances to customers	-	155,469	-	-	155,469
Fair value adjustment for portfolio hedged risk	-	3,408	-	-	3,408
Investments in equity shares	81	-	-	-	81
Other financial assets[1]	-	-	218	-	218
Total financial assets	21,304	172,115	6,077	-	199,496
Other non financial assets					2,857
Total assets					202,353
Financial liabilities					
Shares	-	-	-	128,292	128,292
Deposits from banks	-	-	-	13,283	13,283
Other deposits	-	-	75	5,598	5,673
Due to customers	-	-	-	4,371	4,371
Debt securities in issue	-	-	-	34,794	34,794
Fair value adjustment for portfolio hedged risk	-	239	-	-	239
Derivative financial instruments	-	-	5,986	-	5,986
Subordinated liabilities	-	-	-	2,233	2,233
Subscribed capital	-	-	-	1,526	1,526
Total financial liabilities	-	239	6,061	190,097	196,397
Corporation tax					51
Other non financial liabilities					1,627
Total liabilities					198,075

Note:

(1) Other financial assets represents fair value movement in mortgage commitments entered into where a loan has not yet been made.

The Nationwide Group has credit derivatives in place to cover the credit risk on a £88 million notional amount (2009: £153 million notional) of assets within the available for sale portfolio.

All of the credit derivatives have been undertaken with A+ or above rated US and European banking institutions.

Results of Operations for the Year Ended 4 April 2009 Compared with the Year Ended 4 April 2008

Explanatory Note

On 30 March 2009 the Society acquired the retail and wholesale deposits, branches, head office and originated residential mortgages (other than social housing loans and related deposits) of Dunfermline Building Society. As the acquisition of the core parts of Dunfermline took place immediately prior to the 4 April 2009 year end, the information required to value the acquisition was incomplete. The initial accounting for Dunfermline was thus determined provisionally in our audited financial statements for the year ended 4 April 2009. In accordance with IFRS 3 (2008 Revised) adjustments to the initial provisional accounting for the Dunfermline disclosed in our audited financial statements for the year ended 4 April 2009 have been recognised as if the accounting for the business combination had been completed at the acquisition date. Information for the year ended 4 April 2009 has thus been adjusted, with the effect being a decrease in reported profit before tax of £22 million to reduce taxation by £6 million and to reduce profit after tax by £16 million. The following discussion addresses our results for the year ended 4 April 2009 as so adjusted where applicable.

Introduction

The past financial year has been marked by unprecedented and exceptional market conditions, with problems arising in the financial services industry spreading to the broader economy. Whilst we have not been immune to the impact of the recession, Nationwide has delivered a resilient performance with an underlying profit performance for the year ended 4 April 2009 of £393 million (as compared to £781 million for the year ended 4 April 2008). Underlying profit before tax equates to reported profit before tax adjusted for the add back of Financial Sector Compensation Scheme (FSCS) cost, movements in the value of derivatives and hedge accounting, transformation costs and gains on business combinations.

Profit before tax on a reported basis and underlying basis are set out below. Certain aspects of results are presented to reflect management's view of underlying results and to provide a clearer representation of the performance of (the **Nationwide Group**).

For the year ended 4 April 2009	**As reported**	**FSCS costs**	**Fair value and other adjustments**	**Transformation costs**	**Gains on business combinations**	**Underlying profit before tax**
				(£ millions)		
Net interest income.....	1,758	-	-	-	-	1,758
Other income net of claims on insurance contracts[(1)].....	494	-	-	-	(135)	359
Fair value adjustments from derivatives and hedge accounting	10	-	(10)	-		-
Total income net of claims on insurance contracts[(1)]..	2,262	-	(10)	-	(135)	2,117
Administrative expenses....	1,252	-	-	(107)		1,145
Depreciation and amortisation.....	126	-	-	-		126
Impairment losses on loans and advances to customers	394	-	-	-		394
Provisions for liabilities and charges.....	249	(241)	-	-		8
Impairment losses on investment securities.....	51	-	-	-		51
Profit before tax.....	190	241	(10)	107	(135)	393

For the year ended 4 April 2008	As reported	FSCS costs	Fair value and other adjustments	Transformation costs	Gains on business combinations	Underlying profit before tax
			(£ millions)			
Net interest income.....	1,796	-	-	-	-	1,796
Other income net of claims on insurance contracts.....	411	-	15	-	(10)	416
Fair value adjustments from derivatives and hedge accounting	(31)	-	31	-	-	-
Total income net of claims on insurance contracts.....	2,176	-	46	-	(10)	2,212
Administrative expenses....	1,168	-	-	(59)	-	1,109
Depreciation and amortisation.....	124	-	-	-	-	124
Impairment losses on loans and advances to customers	106	-	-	-	-	106
Provisions for liabilities and charges.....	(10)	-	-	-	-	(10)
Impairment losses on investment securities.....	102	-	-	-	-	102
Profit before tax.....	686	-	46	59	(10)	781

Notes:

(1) Amount for year ended 4 April 2009 has been adjusted. See "— Explanatory Note" above.

The results and discussion include the result of the Derbyshire, the Cheshire and the Dunfermline Building Societies with effect from the date of completion of the acquisitions, 1 December, 2008, 15 December 2008 and 30 March 2009, respectively. Results relating to the Portman Building Society were included with effect from the date of completion of the Portman Building Society merger, 28 August 2007.

The following discussion considers our results for the financial year ended 4 April 2009 compared to our results for financial year ended 4 April 2008.

Total income net of claims on insurance contracts

Our total income increased by 4.0% in the financial year ended 4 April 2009 to £2,262 million from £2,176 million in the financial year ended 4 April 2008. The following table sets forth the components of income for the financial years ended 4 April 2009 and 2008, respectively.

	For the year ended 4 April	
	2009	2008
	(£ millions)	
Net interest income	1,758	1,796
Net fees and commissions	355	332
Net insurance income	-	41
Income from investments	16	25
Other operating income[(1)]	123	3
Gains/(Losses) from derivatives and hedge accounting	10	(31)
Profit on sale of subsidiary undertaking	-	10
Total	2,262	2,176

Notes:

(1) Amount for year ended 4 April 2009 has been adjusted. See "— Explanatory Note" above.

Net interest income

Net interest income decreased by 2.1% to £1,758 million for the financial year ended 4 April 2009 compared with £1,796 million for the financial year ended 4 April 2008.

The following table sets forth the components of net interest income for the financial years ended 4 April 2009 and 2008, respectively.

	For the year ended 4 April	
	2009	2008
	(£ millions)	
Interest and similar income:		
On loans fully secured on residential property	6,916	6,547
On other loans	1,083	1,045
On investment securities	1,249	1,111
On other liquid assets	261	247
Net (expense)/income on financial instruments hedging assets	(410)	609
Expected return on pension assets	151	142
Total interest and similar income	9,250	9,701
Interest expense and similar charges:		
On shares held by individuals	(4,724)	(4,964)
On subscribed capital	(85)	(76)
On deposits and other borrowings:		
• Subordinated liabilities	(93)	(90)
• Other	(1,130)	(829)
Debt securities in issue	(1,376)	(1,565)
Foreign exchange differences	(4)	(1)
Net income/(expense) on financial instruments hedging liabilities	61	(266)
Pension interest cost	(141)	(114)
Total interest expense and similar charges	(7,492)	(7,905)
Net interest income	1,758	1,796

Interest and similar income

Interest and similar income decreased by 4.6% to £9,250 million in the financial year ended 4 April 2009 from £9,701 million in the financial year ended 4 April 2008.

On loans fully secured on residential property

Interest on residential mortgages increased by 5.6% to £6,916 million in the financial year ended 4 April 2009 from £6,547 million in the financial year ended 4 April 2008. This reflects an 11.9% increase in the size of our average residential mortgage portfolio to £131,982 million in the financial year ended 4 April 2009 compared with £117,955 million in the financial year ended 4 April 2008, partly offset by a decrease in our average interest rates on loans to customers to 5.24% for the financial year ended 4 April 2009 compared to 5.55% for the financial year ended 4 April 2008. The increase in the average residential mortgage portfolio arises mainly as a result of the acquisitions during the year. This increase in our average interest rates reflects the reduction in the Bank of England base rate during the year.

On other loans

Interest on other loans includes interest income that we earned from commercial loans fully secured on land, credit card lending, unsecured personal loans and current account overdrafts. Interest on other loans increased by 3.6% to £1,083 million in the financial year ended 4 April 2009 from £1,045 million in the financial year ended 4 April 2008. This reflects a 7.1% increase in our average portfolio of other loans to £15,909 million as at 4 April 2009 from £14,848 million as at 4 April 2008. The major component of interest income on other loans is interest income from commercial loans fully secured on land, which increased to £730 million in the financial year ended 4 April 2009 compared with £650 million in the financial year ended 4 April 2008. The increase in loan balances has been partly offset by a decrease in our average interest rates on other loans to 6.8% for the financial year ended 4 April 2009 compared to 7.04% for the financial year ended 4 April 2008.

On investment securities

Interest and other income from investment securities comprises interest income earned on the corporate and government investment securities that we purchase for our own account to manage our liquidity portfolios and net realised gains and losses on our sales of these instruments.

Interest and other income from investment securities increased by 12.4% to £1,249 million for the financial year ended 4 April 2009 from £1,111 million for the financial year ended 4 April 2008. This increase is due to a rise of 17.5% in the average balance of securities held in both the investment and liquidity portfolios to £24,523 million in the financial year ended 4 April 2009 from £20,866 million for the financial year ended 4 April 2008 partly offset by a decrease in the average interest rate earned on such assets to 4.99% in the financial year ended 4 April 2009, compared to 5.27% for the financial year ended 4 April 2008.

Net income/expense on financial instruments hedging assets

We use derivative instruments 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 income/expense on financial instruments hedging assets". In the financial year ended 4 April 2009, we incurred a net expense on financial instruments used to hedge our fixed rate assets of £410 million compared with a net income of £609 million in the financial year ended 4 April 2008. In very broad terms movements in net income / expense on financial instruments hedging assets can tend to be accompanied by opposing movements in the net income/expense on financial instruments hedging liabilities. See *" – Interest Expense and Similar Charges – Net income/expense on financial instruments hedging liabilities*" below.

Expected return on pension assets

Under IFRS, interest earned on pension fund assets is recognised in interest and similar income and the release of discounts on pension fund liabilities is recognised in interest expense and similar charges in the income statement. These amounts are calculated by an independent actuary using accepted methodology and agreed assumptions.

Interest expense and similar charges

Total interest expense and similar charges decreased by 5.2% in the financial year ended 4 April 2009 to £7,492 million from £7,905 million in the financial year ended 4 April 2008.

On shares held by individuals

Interest on shares held by individuals consists of interest that we pay on UK retail member deposits, which are in savings and current accounts held by our members. Interest on UK retail member deposits decreased

by 4.8% to £4,724 million in the financial year ended 4 April 2009 from £4,964 million in the financial year ended 4 April 2008.

This decrease was mainly due to a fall in the average interest rate that we paid to depositors to 3.93% for the financial year ended 4 April 2009 compared with 4.83% in the financial year ended 4 April 2008 partly offset by a 16.9% growth in the average balance of UK retail member deposits held to £120,139 million in the financial year ended 4 April 2009 from £102,791 million in the financial year ended 4 April 2008.

On deposits and other borrowings

Interest expense on deposits and other borrowings includes interest that we pay on subordinated debt instruments and other deposits and borrowings. In the financial year ended 4 April 2009 interest on subordinated liabilities increased to £93 million from £90 million in the financial year ended 4 April 2008.

Interest expense on deposits and other borrowings also includes the interest that we pay on retail deposits by non-members, deposits from other banks and other money market deposits. In the financial year ended 4 April 2009, other interest expense on other deposits and borrowings increased by 36.3% to £1,130 million from £829 million in the financial year ended 4 April 2008. The average monthly balance of deposits and other borrowings, excluding subordinated liabilities, increased by 58.3% to £24,227 million in the financial year ended 4 April 2009 compared with £15,302 million in the financial year ended 4 April 2008 whilst the average interest rate paid decreased to 4.28% for the financial year ended 4 April 2009 compared with 6.09% for the financial year ended 4 April 2008.

Debt securities in issue

Debt securities in issue include interest that we pay on certificates of deposit, time deposits, commercial paper and medium-term notes. In the financial year ended 4 April 2009, interest expense on debt securities in issue decreased by 12.1% to £1,376 million from £1,565 million in the financial year ended 4 April 2008. The average monthly balance of debt securities in issue increased by 3.8% to £32,663 million in the financial year ended 4 April 2009, compared with £31,482 million in the financial year ended 4 April 2008. However the increase in balances was offset by a reduction in the average interest rate paid to 4.33% for the financial year ended 4 April 2009, compared with 5.44% for the financial year ended 4 April 2008.

Net income/expense on financial instruments hedging liabilities

We use 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/expense on financial instruments hedging liabilities”. In the financial year ended 4 April 2009 net income on financial instruments used to hedge our fixed rate liabilities was £61 million, compared with a net expense of £266 million in the financial year ended 4 April 2008. In very broad terms movements in net income/expense on financial instruments hedging liabilities can tend to be accompanied by opposing movements in the net income/expense on financial instruments hedging assets. See " – *Interest Receivable and Similar Income – Net income/expense on financial instruments hedging assets*" above.

Net fees and commissions

The following table sets forth the components of net fees and commissions for the financial years ended 4 April 2009 and 2008 respectively.

	For the financial year ended 4 April	
	2009	2008
	(£ millions)	
Fee and commission income:		
Mortgage related fees	24	22
Banking and savings fees	161	166
General insurance fees.	124	107
Other fees and commissions	50	39
Total fee and commission income	359	334
Fee and commission expense:		
Mortgage related fees	1	-
Other fees and commissions	3	2
Total fee and commission expense	4	2
Net fee and commission income	355	332

Income from net fees and commissions consists of income that we earn from lending, banking and savings fees and insurance sales commissions less lending fees and commission expense.

In the financial year ended 4 April 2009, net fees and commissions increased by 6.9% to £355 million compared with £332 million in the financial year ended 4 April 2008. The increase is mainly due to improved general insurance performance driven by continued strong sales of buildings and contents cover to our new and existing mortgage customers as well as growth of our standalone home insurance sales through our direct channels.

The primary general insurance products offered by Nationwide are buildings and contents, payment protection, motor and travel insurances. In the financial year ended 4 April 2009 we linked with Liverpool Victoria to provide our customers with access to leading car, travel, commercial and Buy to Let insurance products. We use leading insurers as third-party underwriters to carry the risks involved in our insurance products.

Net insurance income

	For the year ended 4 April	
	2009	2008
	(£ millions)	
Premiums on insurance contracts and fair value gains on insurance assets	-	142
Claims on insurance contracts	-	(101)
Total	-	41

Nationwide Group sold its life insurance subsidiary, Nationwide Life on 31 January 2008 to Legal & General. Therefore, net insurance income for 2008 reflects the business of Nationwide Life up to and including 31 January 2008 only. From sale date, Nationwide has sold Legal & General insurance products and investment products via our existing distribution arrangements and receives commission on these sales.

Other operating income

In the financial year ended 4 April 2009, other operating income increased to £123 million, compared with £3 million in the financial year ended 4 April 2008. Other income for the financial year ended 4 April 2009 includes £135 million gains on business combinations partly offset by a £16 million loss on revaluation of property, plant and equipment. The gains on business combinations comprises £89 million in relation to the

acquisition of The Cheshire Building Society and £46 million in relation to the acquisition of selected assets and liabilities of the Dunfermline Building Society.

Gains from derivatives and hedge accounting

All derivatives entered into by Nationwide are recorded on the balance sheet at fair value with any fair value movements accounted for in the income statement. Derivatives are only used to limit the extent to which we will be affected by changes in interest rates, exchange rates or other factors specified in building society legislation. 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 fair value of the underlying asset or liability being hedged. Any ineffectiveness arising from different movements in fair value likely will trend to zero over time.

In addition, we enter 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 from derivatives and hedge accounting".

Operating expenses and similar charges

Operating expenses and similar charges increased by 39.1% in the financial year ended 4 April 2009 to £2,072 million from £1,490 million in the financial year ended 4 April 2008. The following table sets forth the components of operating expenses and similar charges for the financial years ended 4 April 2009 and 2008, respectively.

	For the year ended 4 April	
	2009	**2008**
	(£ millions)	
Administrative expenses	1,252	1,168
Depreciation and amortisation	126	124
Impairment losses on loans and advances to customers	394	106
Provisions for liabilities and charges	249	(10)
Impairment losses on investment securities	51	102
Total	2,072	1,490

Administrative Expenses

Administrative expenses increased by 7.2% in the financial year ended 4 April 2009 to £1,252 million from £1,168 million in the financial year ended 4 April 2008. Administrative expenses as a percentage of total average assets decreased to 0.66% in the financial year ended 4 April 2009 from 0.74% in the financial year ended 4 April 2008.

The following table sets forth the components of administrative expenses for the financial years ended 4 April 2009 and 2008, respectively.

	For the year ended 4 April	
	2009	**2008**
	(£ millions)	
Employee costs:		
• Salaries and social security costs	505	465
• Pension costs	94	100
Other administrative costs	653	603
Total	1,252	1,168

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

In the financial year ended 4 April 2009, salaries and social security costs increased by 8.6% to £505 million from £465 million in the financial year ended 4 April 2008. The increase was primarily due to a typical annual base salary increase of 4.3% and merit-based salary increases to some employees. In addition, there has also been an increase in staff numbers partly impacted by the acquisitions of the Derbyshire, Cheshire and Dunfermline building societies in 2008 and the merger with the Portman Building Society in 2007. In the financial year ended 4 April 2009, 734 staff transferred to Nationwide from the Derbyshire, 627 from the Cheshire and 534 from the Dunfermline building societies, respectively. In August 2007, 2,378 staff transferred from Portman Building Society to Nationwide.

Within employee costs, the pension charge decreased by 6.0% to £94 million for the financial year ended 4 April 2009 from £100 million in the financial year ended 4 April 2008. The reduction in pension costs is due to cost savings following the closure of the Nationwide Pension Fund to new entrants on 31 May 2007 partially offset by an increase in pensionable salary costs.

The Nationwide Group operates both defined benefit arrangements and defined contribution arrangements. The principal defined benefit pension arrangement is the Nationwide Pension Fund. This is a contributory defined benefit arrangement, with two main sections. The final salary section was closed to new entrants with effect from 1 January 2002. The career average revalued earnings (CARE) section applied to new entrants with effect from 1 January 2002 and was closed to new entrants on 31 May 2007. Since 1 June 2007, new employees are able to join a defined contribution arrangement.

The total net retirement benefit liability measured under IAS 19: Employee Benefits (**IAS 19**), including the Nationwide Pension Fund, the former Portman Building Society arrangements and the Derbyshire and Cheshire schemes is £331 million (4 April 2008: £40 million). The increase reflects falls in the values of the funds' assets, partly offset by reductions in the IAS 19 liabilities. Nationwide has not taken over the defined benefit arrangements of the Dunfermline Building Society.

We have been actively seeking to manage the retirement benefit liability and have taken a number of steps to contain and reduce the deficit over the last few years:

- Final Salary arrangements closed to new members since 2001 and CARE arrangements closed in May 2007;
- Employee contributions (for Nationwide final salary arrangements) increased from 5% to 7% on 1 July 2006;
- Special contributions of £200 million were paid in the period 2005/06 – 2007/08; and
- All the Trustee boards continue to work closely with their advisors to optimise the investment strategy for the schemes' assets.

We intend to continue to review our options to manage the pension schemes in a responsible way. Following the full triennial valuation of the Nationwide Pension Fund as at 31 March 2007, a plan has been developed to clear the deficit by 2013.

The Portman Building Society Pension and Assurance Scheme was closed to new entrants in 2001. Employees who joined the Portman Group after that date were able to join a defined contribution arrangement.

Other administrative costs increased by 8.3% to £653 million for the financial year ended 4 April 2009 from £603 million for the financial year ended 4 April 2008. The expenses for the financial year ended 4 April 2009, include £107 million of transformation costs relating to the acquisition of the Derbyshire and the Cheshire Building Societies and selected assets and liabilities of the Dunfermline Building Society plus other costs relating to the restructuring of parts of our business. The expenses for the financial year ended 4 April 2008, include £59 million relating to the merger with the Portman Building Society and the sale of our insurance interests to Legal & General. These costs are "one-off" in nature and are therefore excluded from the calculation of underlying profit. Other main categories of expenditure include advertising and marketing, postage and communications, rent and associated taxes, computer hardware maintenance, property maintenance, ATM costs and equipment leasing.

Ongoing administration costs were essentially unchanged at £546 million for the financial year ended 4 April 2009 from £544 million for the financial year ended 4 April 2008. This reflects the continued focus on our cost base.

Depreciation and amortisation expenses

For the financial year ended 4 April 2009, depreciation and amortisation expenses were essentially unchanged at £126 million compared to £124 million for the financial year ended 4 April 2008.

Impairment losses on loans and advances to customers

We assess 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 are experiencing significant financial difficulty or default or delinquency in interest or principal payments.

Impairment losses on loans and advances to customers for the financial year ended 4 April 2009 increased to £394 million from £106 million for the financial year ended 4 April 2008.

The following table analyses the impairment losses on loans and advances to customers between secured and unsecured lending for the financial years ended 4 April 2009 and 2008, respectively.

	For the year ended 4 April	
	2009	**2008**
	(£ millions)	
Secured lending	280	(16)
Unsecured lending	114	122
Total	394	106

Impairment losses on loans and advances to customers were significantly higher in the financial year ended 4 April 2009 than for the financial year ended 4 April 2008, driven by increased provisions on secured lending. However, we believe that the underlying quality of both our secured and unsecured lending remains strong. Of the £280 million charge on secured lending £91 million (2008: release of £12 million) relates to residential mortgages and £189 million (2008: release of £4 million) relates to commercial lending.

The charge on residential lending primarily relates to specialist lending of £87 million as increases in arrears, combined with reductions in property valuations, have resulted in a requirement for increased impairment provisions. The charge on the prime book was just £4 million as modest arrears and lower average LTVs have acted as a buffer against the impact of falling house prices. We believe that deterioration on the books has been contained as increases in unemployment in the second half of the year coincided with the substantial falls in interest rates that made repayments more affordable and so tended to offset the rate of growth in arrears. In addition, levels of write off of £8 million (which included specialist £5 million, prime £3 million) have remained relatively low. The impairment provision on secured residential lending for the financial year ended 4 April 2009 increased by 223% to £123 million from £38 million for the financial year ended 4 April 2008 and residential provision as a percentage of total residential assets increased to 0.10% for the financial year ended 4 April 2009 as compared to 0.03% for the financial year ended 4 April 2008. Impairment provisions as a percentage of originated mortgage balances on cases three or more months in arrears increased to 12.10% as compared to 7.77% for the financial year ended 4 April 2008.

In our commercial lending division, difficult market conditions resulted in an increase in commercial loan defaults, particularly over the second half of the year where the individual impairment charge was £139 million compared with £25 million in the first half. The principal drivers of the increased provisions in the commercial portfolio are covenant breaches on LTVs as a result of substantial falls in capital values, reduced tenant demand either as a result of tenant failure or reduced ability to cure void periods at the end of lease terms, and business failures on owner occupied properties.

The number of commercial property cases in arrears increased significantly in the second half of the year from 75 cases at 30 September 2008 to 179 as at 4 April 2009. Increases in arrears have also impacted the collective provision resulting in an additional impairment charge of £7 million. The overall level of provision for commercial lending as a percentage of assets as at 4 April 2009 has increased significantly to 0.92% compared to 0.15% as at 4 April 2008. The remaining £18 million impairment charge relates to a portfolio of European commercial loans which are classified as "other" loans.

The reduction in the charge for unsecured lending relates to lower levels of write off and delinquent accounts combined with a reduction in the provision required against the up-to-date book. We believe that asset quality in our unsecured lending book remains strong as a result of our cautious approach in our underwriting.

Provisions for liabilities and charges

The following table sets forth the components of provisions for liabilities and charges for the financial years ended 4 April 2009 and 2008, respectively.

	For the year ended 4 April	
	2009	**2008**
	(£ millions)	
Financial Services Compensation Scheme	241	-
Customer redress and loyalty benefits	8	(10)
Total	249	(10)

Based on its share of protected deposits, Nationwide pays levies to the FSCS to enable the FSCS to meet claims against it. In September 2008 a claim was triggered against the FSCS by the transfer of Bradford & Bingley plc's retail deposit business to Abbey National plc. Further claims have been triggered by the failures of various Icelandic banks, London Scottish Bank plc and the transfer of certain assets and liabilities of the Dunfermline Building Society to the Nationwide Group.

The FSCS has met, or will meet, the claims by way of loans received from H.M. Treasury. The terms of these loans are interest-only for the first three years and the FSCS will seek to recover the interest cost,

together with ongoing management expenses, by way of annual levies on member firms over this period. The FSCS has, in turn, acquired the rights to the realisation of the assets of these financial institutions. The FSCS may have a further liability if there are insufficient funds available from the realisation of the assets of the financial institutions to fully repay the H.M. Treasury loans.

The results for the financial year ended 4 April 2009 include a charge for FSCS levies of £241 million. This is in addition to provisions totalling £17 million acquired on the transfers of business of the Derbyshire and the Cheshire building societies and acquisition of certain assets and liabilities of the Dunfermline Building Society. The resulting total provision of £258 million is the Nationwide Group's estimated share of the levies which it will incur in respect of the period of the initial three year loan facility from H.M. Treasury. The provision has been calculated based on the Nationwide's estimated share of protected deposits, the FSCS's latest estimates for the industry's levies for scheme years 2008/09 and 2009/10, estimated capital amounts outstanding on the H.M. Treasury loans and estimated future Libor rates in respect of levies of subsequent scheme years. The amounts do not take account of any levies which may be payable from any refinancing after the maturity of the initial three year loan facility or which may be payable should the FSCS fail to recover sufficient funds to repay its loans, as any such amounts cannot currently be reliably estimated.

The results for the financial year ended 4 April 2008 include a release of provisions for contingent liabilities and commitments of £12.3 million relating to the customer redress. The customer redress provisions of £8 million in the year ended 4 April 2009 have been made in respect of various customer claims. It is expected that the liabilities to which these provisions relate will crystallise over the next 12-24 months.

Impairment losses on investment securities

Under IAS 39, provisions against investment securities are made where there is objective evidence of impairment at the balance sheet date.

During the financial year ended 4 April 2009, extremely difficult market conditions have led to the well publicised collapse of a number of global financial institutions. As a result of these failures impairment losses of £51 million were recognised, including £34 million in respect of Washington Mutual, £3 million in respect of Lehman Brothers and £12 million in respect of our exposure to the Icelandic banks.

During the financial year ended 4 April 2008, an impairment loss of £102.2 million was recognised as a result of the reduction in the fair value of the investment in structured investment vehicles. At the start of the financial crisis in August 2007, we held £167.0 million in seven SIVs. SIVs were particularly badly affected by the liquidity issues in the market with funding for them being withdrawn. We restructured a number of our SIV investments and as a consequence underlying assets were purchased at discounted prices in exchange for our original investments in SIVs. Following our writedowns during the financial year ended 4 April 2008, we had no net exposure to investments in SIVs as at 4 April 2009 compared to £1.7 million as at 4 April 2008.

Taxes

Tax on our profit on ordinary activities for the financial year ended 4 April 2009 amounted to £44 million based on our reported profit on ordinary activities before tax of £190 million, reflecting an effective tax rate of 23.2% as compared with the prevailing UK corporation tax rate of 28%.

For the financial year ended 4 April 2008, tax on our profit on ordinary activities amounted to £191 million based on our reported profit on ordinary activities of £686 million, reflecting an effective tax rate of 27.8% as compared with the prevailing UK corporation tax rate of 30%.

Financial Condition of the Nationwide Group

Capital Resources

Capital is held by the Nationwide Group to protect its depositors, to cover its inherent risks, to provide a cushion for unexpected losses, and to support the development of the business. In assessing the adequacy of its capital resources, the Nationwide Group considers its risk appetite, the material risks to which the Nationwide Group is exposed, and appropriate management strategies required to manage those risks. The Nationwide Group is required to manage its capital in accordance with the rules issued by its regulator, the FSA. Since 1 January 2008, the Nationwide Group has complied with the EU Capital Requirements Directive (Basel II).

As at 4 April 2010, and throughout all periods described herein, the Nationwide Group complied with the capital requirements that were in force. From 4 April 2009, the Nationwide Group calculated its capital requirements using Internal Ratings Based (IRB) approaches for credit risks.

As at 4 April 2009, regulatory capital stood at £9.7 billion.

	For the year ended 4 April	
	2010	**2009**
	(£ millions, except percentages)	
Tier 1		
General reserve	6,363	6,218
Permanent interest bearing shares [(1)]	1,524	1,526
Pension fund net deficit add back [(2)]	355	167
Intangible assets [(3)]	(353)	(211)
Deductions from Tier 1 capital [(4)]	(232)	(186)
	7,657	7,514
Tier 2		
Revaluation reserve	68	69
Subordinated debt [(1)(5)]	2,132	2,233
Collective impairment allowance	97	60
Deductions from Tier 2 capital [(4)]	(232)	(186)
	2,065	2,176
Total capital	9,722	9,690
Risk weighted assets – Pillar 1 [(5)]		
Retail mortgages	14,653	13,559
Commercial loans	18,316	18,751
Treasury	8,351	9,065
Other	4,375	4,702
Market Risk	4,328	3,704
Operational Risk	50	37
	50,073	49,818
Key capital ratios:		
Total capital	9,722	9,690
Core Tier 1 (%) [(6)]	12.2	12.0
Tier 1 ratio (%) [(6)]	15.3	15.1
Total capital (%) [(6)]	19.4	19.5
Tier 2 to Tier 1 ratio (%) [(6)]	27.0	29.0

Notes:

(1) Permanent interest bearing shares and subordinated debt include any fair value adjustments arising from micro hedging and adjustments for unamortised premiums and discounts that are included in the consolidated balance sheet.

(2) The regulatory capital rules allow the pension fund deficit to be added back to regulatory capital and a deduction taken instead for an estimate of the additional contributions to be made in the next five years, less associated deferred tax.

(3) Intangible assets do not qualify as capital for regulatory purposes.

(4) Certain deductions from capital are required to be allocated 50% to Tier 1 and 50% to Tier 2 capital. Deductions are subject to different treatment under IRB in respect of net expected loss over accounting provisions and certain securitisation positions. These are calculated in accordance with FSA guidance.

(5) The Basel II Pillar 1 capital requirements are calculated using the Retail IRB approach for prime mortgages (other than those originated by the Derbyshire, Cheshire and Dunfermline Building Societies) and unsecured lending; Foundation IRB for treasury portfolios (other than corporates); and the Standardised approach for all other credit risk exposures.

(6) Solvency ratios are calculated as relevant capital divided by Risk Weighted Assets. Core Tier 1 relates to Tier 1 capital excluding permanent interest bearing shares.

For further information and analysis of our capital resources, see "*Capitalisation and Indebtedness*".

Short-Term Borrowings

Our short-term borrowings fluctuate considerably depending on our current operating needs. The terms of our short-term borrowings are less than one year.

Contractual Commitments

For details of the amounts of certain of our financial and other contractual liabilities and when payments are due, without taking into account customer deposits and deposits by other financial institutions, please see notes 38 and 39 to our audited consolidated financial statements incorporated by reference herein.

Off-Balance Sheet Arrangements

For a description of off-balance sheet commitment items under IFRS, see notes 41 and 42 to our audited consolidated financial statements incorporated by reference herein.

Critical Accounting Policies

For details on our critical accounting policies under IFRS please see note 1 to our audited consolidated financial statements incorporated by reference herein.

SELECTED STATISTICAL INFORMATION

The following information has been extracted from our management information systems. This information is unaudited. The information contained in this section should be read in conjunction with our consolidated financial statements as well as the section entitled "*Management's Discussion and Analysis of Financial Condition and Results of Operations*".

Average Balance Sheets and Interest Rates

The tables below present, in accordance with IFRS, the average balances for our interest-earning assets and interest-bearing liabilities together with the related interest income and expense amounts, resulting in the presentation of the average yields and rates for the financial years ended 4 April 2010, 2009 and 2008, respectively.

	For the year ended 4 April 2010		
	Average balance[1]	**Interest[2]**	**Average yield/ rate**
	(£ millions, except percentages)		
Interest-earning assets:			
Loans to credit institutions	**8,882**	**47**	**0.53%**
Debt securities[2]	28,757	527	1.83%
Loans to customers	153,989	3,872	2.51%
Expected return on pension assets	-	122	-
Total average interest-earning assets	191,628	4,568	2.38%
Non-interest-earning assets:			
Tangible fixed assets	959		
Fair value adjustment for hedged risk	2,770		
Other financial assets at fair value	183		
Other assets	953		
Goodwill and intangible fixed assets	211		
Investment properties	9		
Reinsurance assets	-		
Deferred tax assets	716		
Total average assets	197,429		
Interest-bearing liabilities:			
UK retail member deposits	122,999	2,326	1.89%
Other deposits	20,609	(132)	(0.64%)
Debt securities in issue and derivative financial instruments[2]	43,058	434	1.01%
Subordinated liabilities	2,144	43	2.01%
Tier 1 capital instruments	1,503	37	2.46%
Unwind of discount of pension liabilities	-	146	-
Total average interest-bearing liabilities	190,313	2,854	1.50%
Non-interest-bearing liabilities:			
Other liabilities	1,678		
Fair value adjustment for hedged risk	124		
Other financial liabilities at fair value	-		
Reserves	5,095		
Current taxes	219		
Total average liabilities	197,429		

Notes:

(1) Average balances are based on the balance as of the end of each month during the financial year.

(2) For the purpose of the average balance sheet, the interest income and expense amounts are stated after allocation of interest on financial instruments entered into for hedging purposes.

	For the year ended 4 April 2009		
	Average balance[1]	**Interest[2]**	**Average yield/ rate**
	(£ millions, except percentages)		
Interest-earning assets:			
Loans to credit institutions	**10,203**	**261**	**2.56%**
Debt securities & derivative financial instruments[2]	28,726	1,224	4.26%
Loans to customers	147,958	7,614	5.15%
Expected return on pension assets	-	151	-
Total average interest-earning assets	186,887	9,250	4.95%
Non-interest-earning assets:			
Tangible fixed assets	876		
Fair value adjustment for hedged risk	1,489		
Other financial assets at fair value	48		
Other assets	773		
Goodwill and intangible fixed assets	150		
Investment properties	14		
Reinsurance assets	-		
Deferred tax assets	199		
Total average assets	190,436		
Interest-bearing liabilities:			
UK retail member deposits	120,139	4,724	3.93%
Other deposits	24,226	1,037	4.28%
Debt securities in issue and derivative financial instruments[2]	35,822	1,415	3.95%
Subordinated liabilities	1,935	93	4.81%
Subscribed capital	1,351	82	6.07%
Unwind of discount of pension liabilities	-	141	-
Total average interest-bearing liabilities	183,473	7,492	4.08%
Non-interest-bearing liabilities:			
Other liabilities	1,545		
Fair value adjustment for hedged risk	95		
Other financial liabilities at fair value	10		
Reserves	5,444		
Insurance contract liabilities	-		
Investment contract liabilities	-		
Current taxes	(131)		
Total average liabilities	190,436		

Notes:

(1) Average balances are based on the balance as of the end of each month during the financial year.

(2) For the purpose of the average balance sheet, the interest income and expense amounts are stated after allocation of interest on financial instruments entered into for hedging purposes.

	For the year ended 4 April 2008		
	Average balance[1]	Interest[2]	Average yield/ rate
	(£ millions, except percentages)		
Interest-earning assets:			
Loans to credit institutions	4,229	247	5.84%
Debt securities	22,556	1,100	5.27%
Loans to customers	132,500	8,213	6.20%
Expected return on pension assets	-	142	-
Total average interest-earning assets	159,285	9,702	6.09%
Non-interest-earning assets:			
Tangible fixed assets	768		
Fair value adjustment for hedged risk	(305)		
Other financial assets at fair value	1,248		
Other assets	869		
Goodwill and intangible fixed assets	107		
Investment properties	15		
Reinsurance assets	199		
Deferred tax assets	71		
Total average assets	162,257		
Interest-bearing liabilities:			
UK retail member deposits	102,791	4,964	4.83%
Other deposits	15,302	932	6.09%
Debt securities in issue and derivative financial instruments	32,510	1,712	5.44%
Subordinated liabilities	1,826	99	5.39%
Tier 1 capital instruments	1,163	85	7.32%
Unwind of discount of pension liabilities	-	113	-
Total average interest-bearing liabilities	153,592	7,905	5.15%
Non-interest-bearing liabilities:			
Other liabilities	1,731		
Fair value adjustment for hedged risk	(15)		
Other financial liabilities at fair value	8		
Reserves	5,939		
Insurance contract liabilities	896		
Investment contract liabilities	39		
Current taxes	67		
Total average liabilities	162,257		

Notes:

(1) Average balances are based on the balance as of 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.

Average Net Interest Margin and Spread

The following tables show our average interest-earning assets, average interest-bearing liabilities and net interest income and illustrate the comparative net interest margin and net interest spread for the financial years ended 4 April 2010, 2009 and 2008, respectively.

	As at 4 April 2010
	(£ millions, except percentages)
Net average interest-earning assets	191,628
Net average interest-bearing liabilities	190,313
Net interest income[(1)]	1,714
Average yield on average interest-earning assets	2.38%
Average rate on average interest-bearing liabilities	1.50%
Net interest spread[(2)]	0.88%
Net interest margin[(3)]	0.87%

Notes:

(1) Defined as total interest income less total interest expense.

(2) Defined as the difference between the average yield on interest-earning assets and the average rate on interest-bearing liabilities.

(3) Defined as net interest income divided by average interest-earning assets.

	As at 4 April 2009
	(£ millions, except percentages)
Net average interest-earning assets	186,887
Net average interest-bearing liabilities	183,473
Net interest income[(1)]	1,758
Average yield on average interest-earning assets	4.95%
Average rate on average interest-bearing liabilities	4.08%
Net interest spread[(2)]	0.87%
Net interest margin[(3)]	0.93%

Notes:

(1) Defined as total interest income less total interest expense.

(2) Defined as the difference between the average yield on interest-earning assets and the average rate on interest-bearing liabilities.

(3) Defined as net interest income divided by average interest-earning assets.

	As at 4 April 2008
	(£ millions, except percentages)
Net average interest-earning assets	159,285
Net average interest-bearing liabilities	153,592
Net interest income[(1)]	1,797
Average yield on average interest-earning assets	6.09%
Average rate on average interest-bearing liabilities	5.15%
Net interest spread[(2)]	0.94%
Net interest margin[(3)]	1.13%

Notes:

(1) Defined as total interest income less total interest expense.

(2) Defined as the difference between the average yield on interest-earning assets and the average rate on interest-bearing liabilities.

(3) Defined as net interest income divided by average interest-earning assets.

Changes in Interest Income and Expenses – Volume and Rate Analysis

The following table allocates the changes in our interest income and expense between changes in average volume and changes in the average rates for the financial year ended 4 April 2010 compared to the financial year ended 4 April 2009. We calculated volume and yield/rate variances based on 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. Pension interest income and expense has been excluded from the table as the assets and liabilities to which they relate are held net on the balance sheet. More information on the net pension liability can be found in our audited consolidated financial statements incorporated by reference herein.

	Year ended 4 April 2010 compared to year ended 4 April 2009		
	Increase/(decrease) in net interest due to changes in:		
	Volume	Yield/rate	Total net change
	(£ millions)		
Type of Property			
Interest income:[1]			
Loans to credit institutions	(30)	(184)	(214)
Debt securities	(36)	(661)	(697)
Loans to customers	299	(4,041)	(3,742)
Total interest income	233	(4,886)	(4,653)
Interest expense:[1]			
UK retail member deposits	110	(2,508)	(2,398)
Amounts owed to credit institutions	(50)	1	(49)
Amounts owed to other customers	95	(1,215)	(1,120)
Debt securities in issue	198	(1,179)	(981)
Subordinated liabilities	9	(59)	(50)
Subscribed capital	8	(53)	(45)
Total interest expense	370	(5,013)	(4,643)
Net interest income	(137)	(127)	(10)

Note:

(1) Interest income and expense amounts are stated after allocation of interest on financial instruments entered into for hedging purposes.

The following table allocates the changes in our interest income and expense between changes in average volume and changes in the average rates for the financial year ended 4 April 2009 compared to the financial year ended 4 April 2008. We calculated volume and yield/rate variances based on 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. Pension interest income and expense has been excluded from the table as the assets and liabilities to which they relate are held net on the balance sheet. More information on the net pension liability can be found in our audited consolidated financial statements incorporated by reference herein.

	Year ended 4 April 2009 compared to year ended 4 April 2008		
	Increase/(decrease) in net interest due to changes in:		
	Volume	Yield/rate	Total net change
	(£ millions)		
Type of Property			
Interest income:[1]			
Loans to credit institutions	208	(194)	14
Debt securities	185	(61)	124
Loans to customers	892	(1,490)	(598)
Total interest income	1,285	(1,745)	(460)
Interest expense:[1]			
UK retail member deposits	764	(1,003)	(239)
Amounts owed to credit institutions	199	(377)	(178)
Amounts owed to other customers	83	199	282
Debt securities in issue	62	(359)	(297)
Subordinated liabilities	6	(11)	(5)
Subscribed capital	13	(16)	(3)
Total interest expense	1,127	(1,567)	(440)
Net interest income	158	(1,178)	(20)

Note:

(1) Interest income and expense amounts are stated after allocation of interest on financial instruments entered into for hedging purposes.

Investment Securities Portfolio

As at 4 April 2010 our investment securities portfolio was carried at a book value of £23,385 million, representing 12.25% of our total assets. Approximately £19.7 billion of the assets in this portfolio were purchased to satisfy regulatory liquidity requirements and approximately £3.7 billion of the assets in this portfolio are investment assets held in our portfolio of investment securities. We only purchase investment-grade debt securities and do not operate a trading portfolio. The following table provides information on the breakdown of our investment securities as at 4 April 2010, 2009 and 2008, respectively.

	As at 4 April		
	2010	2009	2008
	(£ millions)		
Investment securities			
UK government[1]	6,388	4,720	3,348
Other public sector securities[2]	5,958	2,471	-
Other issuers[3]	11,039	14,032	22,137
Total	23,385	21,223	25,485

Notes:

(1) As at 4 April 2010 UK government securities that we held were equal to 99.3% of our general and revaluation reserves compared to 74.9% as at 4 April 2009 and 55.7% as at 4 April 2008.

(2) Other public sector securities include securities issued by UK local authorities and sovereign debt backed by foreign (non-UK) governments.

(3) As at 4 April 2010, we held no securities issued by counterparties where the values of which individually exceeded 10% of our general and revaluation reserves.

The following table shows the contractual maturity of investment securities held as at 4 April 2010.

	As at 4 April 2010						
	Maturing within 1 year	Maturing after 1 but within 5 years	Maturing after 5 years but within 10 years	Maturing after 10 years	Accrued Interest	Allowances	Total
	(£ millions)						
UK government	5	2,394	1,403	2,538	48	-	6,388
Other public sector securities	379	946	3,642	936	55	-	5,958
Other issuers	1,757	4,066	2,134	2,991	91	-	11,039
Total	2,141	7,406	7,179	6,465	194	-	23,385

The following table presents a further analysis of other issuers as at 4 April 2010, 2009 and 2008, respectively.

	As at 4 April		
	2010	2009	2008
	(£ millions)		
Investment securities – other issuers			
UK financial institutions	595	2,534	5,263
European financial institutions	3,164	4,395	7,755
Non European financial institutions	942	1,184	1,810
Asset backed securities	5,548	5,070	6,490
Other issuers	790	849	819
Total	11,039	14,032	22,137

Loan Portfolio

As at 4 April 2010 total loans, including accrued interest, were £154,446 million, representing 80.77% of our total assets. Our loan portfolio has decreased by 3.8% during the last financial year from £160,502 million as at 4 April 2009 to £154,446 million as at 4 April 2010.

The following table summarises our loan portfolio, net of allowances, as at 4 April 2010, 2009 and 2008, respectively.

	As at 4 April		
	2010	2009	2008
	(£ millions)		
Loans to customers:			
Residential mortgage loans	127,313	129,916	119,546
Consumer banking	2,143	2,230	1,949
Commercial Lending	21,765	21,943	20,603
Other lending	556	661	681
Total loans to customers	151,777	154,750	142,779
Fair value adjustment for micro hedged risk(1)	652	719	25
Loans and advances to banks	2,017	5,033	2,837
Total	154,446	160,502	145,641

Notes:

(1) Under IFRS the carrying value of the hedged item is adjusted for the change in value of the hedged risk.

The following table presents the contractual maturity distribution for repayment for the loans held by us as at 4 April 2010.

	As at 4 April 2010						
	Due on Demand	Due within 3 Months	Due in 3 months to 1 year	Due in 1 year to 5 years	Due after 5 years	Allowances	Total[1]
	(£ millions)						
Loans to customers	1,247	1,365	4,420	24,722	121,425	(750)	152,429
Loans and advances to banks	-	1,817	-	-	200	-	2,017
Total Loans	1,247	3,182	4,420	24,722	121,625	(750)	154,446

Note:

(1) The maturity analysis is produced on the basis that where a loan is repayable by instalments, each instalment is treated as a separate repayment. Arrears are spread across the remaining term of the loan.

The following table presents the split of fixed and variable loans to customers and credit institutions as at 4 April 2010.

	As at 4 April 2010			
	Fixed rate	Variable rate	Outstanding Checks	Total[1]
	(£ millions)			
Loans to customers	66,366	85,411	-	151,777
Loans to credit institutions	299	2,153	(435)	2,017
Total loans	66,665	87,564	(435)	153,794

Note:

(1) Outstanding checks were issued by Nationwide mostly on behalf of retail customers, and had not been presented through the banking system as at 4 April 2010.

Loans in Arrears

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. As a result, the concept of suspended interest and interest write back is no longer recognised.

The following table provides information on Prime and specialist lending and Consumer banking balances by payment due status as at 4 April 2010.

	As at 4 April 2010				
	Prime lending	Specialist lending	Consumer banking	Total	%
	(£ billions, except percentages)				
Not impaired:					
Neither past due nor impaired	106.3	16.5	2.1	124.9	96%
Past due up to 3 months but not impaired	1.9	1.2	0.0	3.1	3%
Impaired	0.5	1.0	0.2	1.7	1%

108.7	18.7	2.3	129.7	100%

The following table provides information on Prime and specialist lending and Consumer banking balances by payment due status as at 4 April 2009.

	As at 4 April 2009				
	Prime lending	**Specialist lending**	**Consumer banking**	**Total**	
	(£ billions, except percentages)				
Not impaired:					
Neither past due nor impaired	109.5	15.7	2.2	127.4	96%
Past due up to 3 months but not impaired	1.9	1.4	0.1	3.4	3%
Impaired	0.5	1.1	0.1	1.7	1%
	111.9	18.2	2.4	132.5	100%

The following table provides information on retail and commercial loans and advances by payment status as at 4 April 2008. Due to reclassifications of the loan book in the Financial Statements for the year ended 4 April 2010 (with comparative information for the year ended 4 April 2009), information on the breakdown of loans and advances by payment status is presented differently for the year ended 4 April 2008.

	As at 4 April 2008			
	Retail		**Non-retail**	
	(£ billions, except percentages)			
Not impaired:				
Neither past due nor impaired	106.3	98%	33.6	96%
Past due up to 3 months but not impaired	1.6	2%	0.9	3%
Impaired:				
Past due 3 to 6 months	0.3	-	0.1	0.5%
Past due 6 to 12 months	0.1	-	0.1	0.5%
Total	108.3	100%	34.7	100%

Loan Loss Experience

The Nationwide Group assesses at each balance sheet date whether, as a result of one or more events that occurred after initial recognition, there is objective evidence that a financial asset or group of financial assets is impaired. Evidence of impairment may include 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.

The Nationwide Group first assesses whether objective evidence of impairment exists either individually for assets that are separately significant or individually or collectively for assets that are not separately significant. If there is no objective evidence of impairment for an individually assessed asset it is included in a group of assets with similar credit risk characteristics and collectively assessed for impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. The resultant provisions have been deducted from the appropriate asset values in the balance sheet.

The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Nationwide Group to reduce any differences between loss estimates and actual loss experience.

The following table sets forth the movement in our allowances for loan losses for the financial year ended 4 April 2010.

	Prime residential	**Specialist residential**	**Consumer banking**	**Commercial lending**	**Other lending**	**Total**
			(£ millions)			
At 5 April 2009	20	101	136	194	19	470
Charge for the year	10	79	126	299	35	549
Amounts written off during the year	(14)	(33)	(120)	(54)	(38)	(259)
Amounts recovered during the year	2	1	13	-	4	20
Unwind of discount of provision	(1)	(5)	(7)	(17)	-	(30)
As at 4 April 2010	17	143	148	422	20	750

The following table sets forth the movement in our allowances for loan losses for the financial year ended 4 April 2009.

	Prime residential £m	Specialist residential £m	Consumer banking £m	Commercial lending £m	Other lending £m	Total £m
As at 5 April 2008	19	19	135	30	9	212
Charge for the year	4	87	113	171	19	394
Amounts written off during the year	(4)	(5)	(119)	(3)	(13)	(144)
Amounts recovered during the year	1	-	13	-	4	18
Unwind of discount of provision	-	-	(6)	(4)	-	(10)
As at 4 April 2009	20	101	136	194	19	470

The following table sets forth the movement in our allowances for loan losses for the financial year ended 4 April 2008. Due to reclassifications of the loan book in the Financial Statements for the year ended 4 April 2010 (with comparative information for the year ended 4 April 2009), information on the breakdown of allowances for loan losses is presented differently for year ended 4 April 2008.

2008	**Loans fully secured on residential property**		**Loans fully secured on land**		**Other loans**				**Total**
	Individual	**Collective**	**Individual**	**Collective**	**Individual**	**Collective**	**Individual**	**Collective**	**Total**
					(£ millions)				
As at 5 April 2007	2	28	7	24	-	143	9	195	204
Charge/(credit) for the financial year	5	(17)	(4)	-	-	122	1	105	106
Acquired on transfer of engagements	-	22	-	-	-	-	-	22	22.0
Amounts written off during the financial year	(3)	-	(1)	-	-	(129)	(4)	(129)	(133)
Amounts recovered during the financial year	1	-	4	-	-	14	5	14	19
Unwind of discount of provision	-	-	-	-	-	(6)	-	(6)	(6)
As at 4 April 2008	5	33	6	24	-	144	11	201	212
Ratio of net write-offs during the period to average loans outstanding during the period[1]									0.09%

Note:

(1) For the purposes of the calculation of the ratio of net write-offs during the period to average loans outstanding during the period, average loans to customers are based on our average balance sheets.

The following table shows the allowances for loan losses as a percentage of total loans, analysed by category.

	As at 4 April		
	2010[1]	**2009**[1]	**2008**[1]
		(%)	
Total Allowances as a % of total loans[1]			
Residential	0.13	0.09	0.03
Commercial	1.90	0.88	0.15
Consumer	6.91	6.10	5.55
Other	3.60	2.87	1.32
Total loans	0.49	0.30	0.15
% of loans in each category to total loans			
Residential mortgage loans	83.5	83.8	83.6
Commercial	14.6	14.2	14.2
Consumer	1.5	1.6	1.7
Other	0.4	0.4	0.5
Total loans	100.00%	100.00%	100.00%

Note:

(1) The loan balances for the financial years ended 4 April 2010, 2009 and 2008 are summarised earlier in this section of the Base Prospectus.

Deposits

The following table sets out the average balances and average interest rates for each deposit type for the financial year ended 4 April 2010.

	For year ended 4 April 2010	
	Average balance	**Average rate paid**
	(£ millions, except percentages)	
UK retail member deposits	122,999	1.89%
Other customer deposits and amounts due to banks[(1)]	20,609	1.86%

Note:

(1) Amounts owed to other customers include time deposits, call deposits and retail deposits that do not grant "member" status.

The following table sets out the average balances and average interest rates for each deposit type for the financial year ended 4 April 2009.

	For year ended 4 April 2009	
	Average balance	**Average rate paid**
	(£ millions, except percentages)	
UK retail member deposits	120,139	3.93%
Other customer deposits and amounts due to banks[(1)]	24,227	4.28%

Note:

(1) Amounts owed to other customers include time deposits, call deposits and retail deposits that do not grant "member" status.

The following table sets out the average balances and average interest rates for each deposit type for the financial year ended 4 April 2008.

	For year ended 4 April 2008	
	Average balance	Average rate paid
	(£ millions, except percentages)	
UK retail member deposits	102,791	4.83%
Other customer deposits and amounts due to banks[(1)]	15,302	6.09%

Note:

(1) Amounts owed to other customers include time deposits, call deposits and retail deposits that do not grant "member" status.

As explained in "*Description of Business—Retail Funding*", our 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 approximate split of UK retail member deposits between instant access accounts and notice accounts as at 4 April 2010, is as follows:

	As at 4 April 2010
	(£ millions)
Instant access accounts	51,960
Notice accounts	68,513
Accrued interest	470
UK retail member deposits	120,943

Maturity of Deposits

The following table shows the maturity analysis of time deposits over $100,000and certificates of deposit as at 4 April 2010.

	As at 4 April 2010			
	Time deposits	Certificates Of deposit	Total	%
	(£ millions, except percentages)			
Less than 3 months	2,857	4,067	6,924	70%
3 months to 6 months	560	1,452	2,012	20%
6 months to 1 year	283	615	898	9%
Over 1 year	64	10	74	1%
Total	3,764	6,144	9,908	100%

Return on Assets

The following table represents net income as a percentage of total average assets for the financial year ended 4 April 2010.

	For the year ended 4 April 2010
	(£ millions, except percentages)
Net income[(1)]	264
Total average assets[(2)]	197,429
Return on total average assets	0.13%

Notes:

(1) Net income represents profit for the financial year after tax.

(2) Total average assets is based on the total assets as of the end of each month during the financial year.

The following table represents net income as a percentage of total average assets for the financial year ended 4 April 2009.

	For the year ended 4 April 2009
	(£ millions, except percentages)
Net income[(1)]	146
Total average assets[(2)]	190,437
Return on total average assets	0.08%

Notes:

(1) Net income represents profit for the financial year after tax.

(2) Total average assets is based on the total assets as of the end of each month during the financial year.

The following table represents net income as a percentage of total average assets for the financial year ended 4 April 2008.

	For the year ended 4 April 2008
	(£ millions, except percentages)
Net income[(1)]	495
Total average assets[(2)]	162,257
Return on total average assets	0.31%

Notes:

(1) Net income represents profit for the financial year after tax.

(2) Total average assets is based on the total assets as of the end of each month during the financial year.

As a mutual organisation, we are managed for the benefit of our members, our retail savings and residential mortgage customers, rather than for equity shareholders. We return value to our members by offering generally higher interest rates on savings and lower interest rates on loans than those offered by our main competitors. As a result, we typically earn lower profits than our main competitors, which are typically banks or other non-mutual organisations. However, we pay no dividends, and our net earnings are put into reserves and constitute Tier 1 capital for our capital adequacy requirements.

We have not presented any information regarding returns on equity because, as a mutual organisation, we do not have equity.

FINANCIAL RISK MANAGEMENT

Strategy in using financial instruments

Financial instruments incorporate the vast majority of the Nationwide Group's assets and liabilities. Given the dominant position of the Society within the Nationwide Group structure, the term "Nationwide Group" is used to cover the activities of both Nationwide Group and Society. Furthermore, because the risks of the organisation are managed on a Nationwide Group basis, the risk disclosures are presented only on a consolidated basis.

The Nationwide Group accepts deposits from customers at fixed, floating and variable interest rates for various periods and seeks to earn an interest margin by investing these funds in high quality assets – predominantly mortgages. The principal risks which arise from this core activity, and which need to be managed by the Nationwide Group, are interest rate risks (including basis risk), credit risks, foreign exchange, liquidity and funding risks.

The Nationwide Group uses derivative instruments to manage various aspects of risk. However, in doing so it complies with the UK Building Societies Act 1986 which limits our use of derivatives to the mitigation of consequences arising from changes in interest rates, exchange rates or other factors defined by the Act.

Derivatives

The principal derivatives used in balance sheet risk management are interest rate swaps, forward rate agreements, interest rate options, cross-currency interest rate swaps, interest rate futures, foreign exchange contracts, credit derivatives and equity index swaps. Derivatives are used to hedge balance sheet and income exposures arising, *inter alia*, from fixed rate mortgage lending, fixed rate savings products, funding and investment activities in foreign currencies or involving fixed rate instruments or instruments with embedded options. Nationwide Group risk exposures are recorded on the Society's information systems and monitored accordingly.

The following table describes the significant activities undertaken by the Nationwide Group, the risks associated with such activities and the types of derivatives which are used in managing such risks. Such risks may alternatively be managed using cash instruments as part of an integrated approach to risk management.

Activity	Risk	Type of derivative instrument used
Savings products and funding activities involving instruments which are fixed rate with embedded options	Sensitivity to changes in interest rates	Interest rate swaps, interest rate futures, swaptions and forward rate agreements
Mortgage lending and investment activities involving instruments which are fixed rate or which include explicit or embedded options	Sensitivity to changes in interest rates, including differential between Base Rate and Libor	Interest rate swaps including basis swaps, interest rate futures, swaptions, caps, collars and forward rate agreements
Investment and funding in foreign currencies	Sensitivity to changes in foreign exchange rates	Cross-currency swaps and foreign exchange contracts
Investment of liquid resources	Sensitivity to changes in obligor	Credit default swaps

in debt securities	credit risk leading to default	
Protected equity bond (PEBS) savings products	Sensitivity to changes in stock indices	Equity index swaps

Where possible, fair value hedge accounting is employed but no use is made of cash flow hedge accounting.

The Board and the Assets and Liabilities Committee (ALCO) are responsible for setting certain parameters respectively over the Nationwide Group exposure to interest rates, foreign exchange rates and other indices. The Board exercises oversight over these exposures. The Commercial and Treasury Credit Committee sets Nationwide Group credit policy and regularly monitors and reviews credit exposures arising in all aspects of Nationwide Group operations, including derivatives. All risk committees are overseen by the Board Risk Committee on behalf of the Board.

All exchange-traded instruments are subject to cash requirements under the standard margin arrangements applied by the individual exchanges. Such instruments are not subject to significant credit risk. Credit exposures arising on derivative contracts with certain counterparties are collateralised (e.g. with cash deposits), to mitigate credit exposures. All Nationwide Group derivatives activity is contracted with Organisation for Economic Co-operation and Development (OECD) financial institutions.

The principal financial risks to which the Nationwide Group is exposed are interest rate, credit, foreign exchange, liquidity and funding risk. Each of these is considered below.

Interest rate risk

The primary market risk faced by the Nationwide Group is interest rate risk. The net interest income and market value of the Nationwide Group's assets are exposed to movements in interest rates. This exposure is managed on a continuous basis, within parameters set by ALCO, using a combination of derivative instruments, cash instruments (such as loans, deposits and bonds), and contractual terms within products and associated procedures.

The Nationwide Group does not run a trading book and therefore does not have the higher risk exposure run by many banking institutions. Given our policy of hedging fixed rate assets and liabilities back to floating rate, interest rate market value risk arises mainly from the Board's decision to invest the Nationwide Group's reserves according to a specified fixed rate maturity profile. The level of risk can deviate from this – subject to limits – in particular as a result of decisions made by the Nationwide Group's Treasury department to temporarily deviate from the specified fixed rate maturity profile in the light of market conditions.

Interest rate earnings risk arises mainly from the diversity of product terms and associated procedures adopted by the Nationwide Group in originating and administering retail and commercial products. Should reported exposure approach internal risk parameters, action is initiated by ALCO to mitigate such exposure, through changes to these product terms and procedures, or through the use of derivatives.

The Nationwide Group uses several metrics to monitor interest rate risk and details of these are set out below. The limits around these metrics have been set by ALCO and reflect the Nationwide Group's low risk appetite.

Value at Risk (VaR). This is a technique that estimates the potential losses that could occur on risk positions as a result of movements in market rates and prices over a specified time horizon and to a given level of confidence. In its day to day monitoring Nationwide uses a 10 day horizon and a 99% confidence level.

The VaR model used by Nationwide incorporates underlying risk factors based on interest rate volatilities and correlations. Potential movements in market prices are calculated by reference to daily market data from the last two years equally weighted. Exposures against limits are reviewed daily by management. Actual

outcomes are monitored periodically to test the validity of the assumptions and factors used in the VaR calculation.

Although a valuable guide to risk, VaR needs to be viewed in the context of the following limitations:

- historic data is not necessarily a good guide to future events;
- the use of a 99% confidence level, by definition, does not take account of changes in value that might occur beyond this level of confidence. The VaR numbers may not encompass all potential events, particularly those that are extreme in nature; and
- VaR is calculated on the basis of exposures outstanding at the close of business and therefore does not necessarily reflect intra-day exposures.

Sensitivity analysis (PV01 sensitivity). This is used to assess the change in value of the Nationwide Group's current net worth against a one basis point (0.01%) parallel shift in interest rates. As is the case with VaR, this analysis is done on a daily basis separately for each currency (but with the main risk arising from Sterling exposures) and in aggregate.

Stress testing, PV200 sensitivity is calculated in a similar manner to PV01 but against a much more severe 200 basis point (2.0%) parallel shift in interest rates. Both PV01 and PV200 numbers are generated and monitored daily.

Change in value of the Nationwide Group's current net worth is also calculated against a range of non-linear stresses to the yield curve. This output is reported and monitored on a monthly basis.

The average gross exposures (before deduction of the above mentioned specified fixed rate maturity profile for the Nationwide Group's reserves) through the reporting period are as follows:

	Average	**High**	**Low**	Average	High	Low
	2010	**2010**	**2010**	2009	2009	2009
	£m	**£m**	**£m**	£m	£m	£m
VaR	**83**	**88**	**79**	68	86	47
Sensitivity analysis (PV01)	**2**	**2**	**2**	2	2	1
Stress testing (PV200: all currencies)	**390**	**463**	**362**	374	427	295

All exposures include investment of the Nationwide Group's reserves. VaR reflects the impact of the rise of interest rate volatilities in the reference period.

Earnings risk. Interest rate earnings risks, such as basis risk (the risk of loss arising from changes in the relationship between interest rates which have similar but not identical characteristics (e.g. LIBOR and Bank of England Base Rate) and prepayment risk (the risk of loss arising from early repayment of fixed rate mortgages and loans) are also monitored closely and regularly reported to ALCO.

Earnings risks are calculated using a variety of stochastic and deterministic scenarios.

Credit risk

The Nationwide Group takes on exposure to credit risk, which is defined as the risk that a counterparty will be unable to pay amounts in full when due. Impairment provisions are provided for losses that have been incurred at the balance sheet date. Significant changes in the economy, or a sector that represents a concentration in the Nationwide Group's portfolio, could result in losses that are different from those provided for at the balance sheet date. Management therefore, carefully monitors its exposure to credit risk.

The Nationwide Group's Credit Committees for Retail and Commercial and Treasury are responsible for approving and monitoring the Nationwide Group's credit exposures which they do through formal annual review and approval of the Nationwide Group's lending policies. Regular monitoring and review of lending is undertaken through detailed management information including the performance of credit scoring systems for all retail lending. Formal limits are set and reviewed at individual, segment and portfolio levels based on credit exposures split by individual counterparties, geographical location and industry sector. Summary minutes of the Credit Committees together with key risk monitoring metrics are reviewed by the Executive Risk Committee.

Prior to advancing funds, an assessment is made of the credit quality of borrowers and other counterparties for all lending to both retail and corporate customers. Retail lending is subject to credit scoring and lending policies. Corporate lending is based on counterparty assessment that includes the use of multiple rating methodologies.

Credit risk within our Treasury Division arises primarily from the investments held by Treasury for liquidity and investment purposes and for general business purposes. This aspect of credit risk is managed by Treasury Division and the Commercial and Treasury Risk function within Risk Management Division. The Commercial and Treasury Risk team underwrites all new facilities and monitors existing facilities. They also set and monitor compliance with policy and limits, reporting to the Commercial and Treasury Credit Committee. In addition, counterparty credit risk arises from the Nationwide Group's derivatives where the market values are positive.

The Treasury Credit Risk function monitors exposure concentrations against a variety of criteria including industry sector, asset class, and country of risk. The Treasury portfolio exposure is well spread across both industry sectors and jurisdictions. Nationwide has no exposure to emerging markets or hedge funds and only minimal exposure to non investment grade debt.

Maximum credit risk exposure as at 4 April 2010 was £194.5 billion, compared with £206.6 billion at 4 April 2009 which includes the carrying value for all assets and commitments.

The classes of financial instruments to which the Nationwide Group is most exposed are loans and advances to customers, loans and advances to banks, investment securities – available for sale, and derivative financial instruments. See the notes to our audited consolidated financial statements incorporated by reference herein, in "*Management's Discussion and Analysis of Financial Condition and Results of Operations – Results of Operations for the Year Ended April 4. 2010 Compared with the Year Ended April 4. 2009 – Balance Sheet Review"* and "*Selected Statistical Information"*.

Foreign exchange risk

Foreign exchange risk is the risk that the Sterling value of, or net income from, assets and liabilities that are denominated in foreign currency changes as a consequence of changes to foreign exchange rates.

In addition to commercial loans denominated in Euro, a significant proportion of Treasury funding and investment activity is undertaken in foreign currencies. Foreign currency exposure is hedged on the balance sheet or by using derivatives to reduce currency exposures to acceptable levels.

In line with the prudential guidance applying to all building societies and after taking account of foreign currency derivatives, the Nationwide Group has no substantial net exposure to foreign exchange rate fluctuations or changes in foreign currency interest rates. ALCO sets limits on the level of exposure by currency, which are monitored daily.

VaR is used to monitor the risk arising from open foreign currency positions. Open currency positions represent the net value of assets, liabilities and derivatives in foreign currency. The parameters of the VaR methodology, and frequency of reporting are exactly as described above under Interest Rate Risk.

The average gross Sterling equivalent exposures for foreign exchange risk through the year are as follows:

	2010			2009		
	Average	**High**	**Low**	Average	High	Low
	£m	£m	£m	£m	£m	£m
VaR	**0.2**	**0.6**	**-**	0.2	0.5	**-**

Liquidity risk

Liquidity risk is the risk that the Nationwide Group is not able to meet its financial obligations as they fall due (including any unexpected adverse cash flow), to smooth out the effect of maturity mismatches, or to maintain public confidence.

The Nationwide Group liquidity policy is to maintain sufficient liquid resources to cover cash flow imbalances and fluctuations in funding, to retain full public confidence in the solvency of the Nationwide Group and to enable it to meet all financial obligations. This is achieved through maintaining a prudent level of high quality liquid assets, through management and stress testing of business cash flows, and through management of funding facilities. The Nationwide Group liquidity policy is reconsidered annually by the Board.

Liquid assets are categorised according to their liquidity characteristics, and the most liquid category of assets is the focus of management attention. This portfolio predominantly comprises holdings of sovereign-issued securities, and deposits with the central bank and is aligned to the "liquid asset buffer" defined in the FSA's policy statement on liquidity management (Policy Statement 09/16). Assets may be acquired through direct purchase, through repurchase agreements or through collateral swaps. Encumbered assets are excluded from the calculation of liquid assets which is conducted on a daily basis.

The Board is responsible for setting limits over the level and composition of liquidity balances. A series of liquidity stress tests is performed to confirm that the limits remain appropriate. Previously for a forward period of one month, a liquidity model has been used on a monthly basis to apply a number of stress scenarios to the Nationwide Group contractual and behavioural forward cash flows. The minimum level of liquidity to be held was determined through one of these stress scenarios, and internal liquidity limits are increased, where required, on a monthly basis. This process has now been enhanced to include daily calculations of stressed cashflows over forward periods of both shorter and longer duration.

ALCO is responsible for setting more detailed limits within the context of overall Board limits, including the level and maturity profile of wholesale funding, and for monitoring the composition of the Nationwide Group balance sheet. Wholesale funding maturities are monitored to ensure that future maturities are not concentrated on a calendar basis. This enhances the ability of the Nationwide Group to refinance maturing liabilities throughout forward months and quarters. A consolidated cash flow forecast is maintained on a continuous basis and reviewed by ALCO. Going forward, limits regarding the maturity concentration and composition of savings portfolio are being monitored.

A Contingency Funding Plan has been approved by ALCO, and describes procedures and available actions to manage the Nationwide Group's liquidity resources through a period of market disruption or heavy retail outflows. This is reviewed on a biannual basis.

Our £152.5 billion of loans and advances to customers continue to have a low-risk profile when compared to industry benchmarks. The mix of lending has remained broadly consistent over the year.

The table below analyses the carrying value of assets and liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. In practice, customer deposits will be repaid later than on the earliest date on which repayment can be required.

The carrying values of derivative financial instruments are included in the columns according to their contractual maturity.

As at 4 April 2010 – Residual maturity	**Repayable on demand £m**	**Up to 3 months £m**	**3 - 12 months £m**	**1 - 5 years £m**	**More than 5 years £m**	**Total £m**
Assets						
Liquid assets	**5,773**	**602**	**1,773**	**7,406**	**13,842**	**29,396**
Loans and advances to customers	**497**	**1,365**	**4,420**	**24,722**	**121,425**	**152,429**
Derivative financial instruments	**-**	**214**	**337**	**2,867**	**1,434**	**4,852**
Other financial assets	**-**	**19**	**175**	**2,038**	**492**	**2,724**
Total assets	**6,270**	**2,200**	**6,705**	**37,033**	**137,193**	**189,401**
Liabilities						
Shares	**71,675**	**7,573**	**19,987**	**21,699**	**9**	**120,943**
Amounts owed to banks, customers and debt securities in issue	**5,295**	**18,910**	**7,403**	**15,787**	**7,032**	**54,427**
Derivative financial instruments	**-**	**68**	**463**	**2,901**	**1,510**	**4,942**
Other financial liabilities	**-**	**10**	**(14)**	**111**	**(1)**	**106**
Subordinated liabilities	**-**	**-**	**800**	**773**	**593**	**2,166**
Subscribed capital	**-**	**-**	**-**	**35**	**1,489**	**1,524**
Total liabilities	**76,970**	**26,561**	**28,639**	**41,306**	**10,632**	**184,108**
Net liquidity gap	**(70,700)**	**(24,361)**	**(21,934)**	**(4,273)**	**126,561**	**5,293**

In addition to the assets and liabilities shown in the table above, residential commitments as at the year end for the Nationwide Group stood at £2,272 million (2009: £4,680 million) and for the Society at £1,936 million (2009: £4,128 million). These commitments can be drawn at any time, but have a 6 month expiry from inception.

Commercial commitments for both Nationwide Group and Society can be drawn at any time. They have expiry dates that are specific to each contract and these can be in excess of 5 years. Of the Nationwide Group commitments outstanding at the financial year end, £61 million have a maturity of less than 3 months, £224 million have a maturity of within 3 to 12 months, £1,499 million mature within 1 to 5 years and £885 million mature after 5 years. Of the Society commitments outstanding at the year end, £57 million have a maturity of less than 3 months, £210 million have a maturity of within 3 to 12 months, £1,408 million mature within 1 to 5 years and £833 million mature after 5 years.

As at 4 April 2009 – Residual maturity (Adjusted)	Repayable on demand £m	Up to 3 months £m	3 - 12 months £m	1 - 5 years £m	More than 5 years £m	Total £m

Assets						
Liquid assets	12,410	1,772	2,165	8,703	9,411	34,461
Loans and advances to customers	861	1,726	3,840	23,078	125,964	155,469
Derivative financial instruments	-	650	949	2,849	1,411	5,859
Other assets	-	37	210	2,746	496	3,489
Total assets	13,271	4,185	7,164	37,376	137,282	199,278
Liabilities						
Shares	84,405	7,806	24,136	11,934	11	128,292
Amounts owed to banks, customers and debt securities in issue	3,714	26,848	10,723	12,173	4,663	58,121
Derivative financial instruments	-	149	435	3,800	1,602	5,986
Other liabilities	-	65	124	50	-	239
Subordinated liabilities	-	16	-	1,595	622	2,233
Subscribed capital	-	-	-	-	1,526	1,526
Total liabilities	88,119	34,884	35,418	29,552	8,424	196,397
Net liquidity gap	(74,848)	(30,699)	(28,254)	7,824	128,858	2,881

Liquid assets include cash in hand and balances with the Bank of England, loans and advances to banks and available for sale investment securities.

Other financial assets and liabilities include the fair value adjustment for portfolio hedged risk and investments in equity shares.

The analysis above excludes other assets including property plant and equipment, intangible assets, investment property, other assets, deferred tax assets and accrued income and expenses prepaid, and other liabilities including provisions for liabilities and charges, accruals and deferred income, current tax liabilities, other liabilities and retirement benefit obligations.

The following is an analysis of gross undiscounted contractual cash flows payable under financial liabilities:

For the year ended 4 April 2010	**Repayable on demand**	**Up to 3 months**	**3 - 12 months**	**1 - 5 years**	**More than 5 years**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**
2010						
Shares	**71,675**	**7,794**	**20,448**	**22,541**	**9**	**122,467**
Amounts owed to banks, customers and debt securities in issue	**5,295**	**18,964**	**7,512**	**16,114**	**7,128**	**55,013**
Derivative financial instruments	**-**	**702**	**1,907**	**2,463**	**56**	**5,128**
Other financial liabilities	**-**	**10**	**(13)**	**112**	**(1)**	**108**
Subordinated liabilities	**-**	**6**	**851**	**933**	**619**	**2,409**
Subscribed capital	**-**	**10**	**81**	**872**	**1,393**	**2,356**
Total liabilities	**76,970**	**27,486**	**30,786**	**43,035**	**9,204**	**187,481**

For the year ended 4 April 2009	Repayable on demand	Up to 3 months	3 - 12 months	1 - 5 years	More than 5 years	Total
2009	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Shares	84,405	8,020	24,521	12,445	12	129,403
Amounts owed to banks, customers and debt securities in issue	3,714	26,982	10,941	12,736	4,816	59,189
Derivative financial instruments	-	692	1,926	2,919	536	6,073
Other financial liabilities	-	66	125	51	-	242
Subordinated liabilities	-	22	82	1,688	676	2,468
Subscribed capital	-	10	81	694	1,662	2,447
Total liabilities	88,119	35,792	37,676	30,533	7,702	199,822

The analysis of gross contractual cash flows above differs from the analysis of residual maturity due to the inclusion of interest accrued at current rates, for the average period until maturity on the amounts outstanding at the balance sheet date.

Fair values of financial assets and liabilities

The following table summarises the carrying amounts and fair values of those financial assets and liabilities not presented on the Nationwide Group balance sheets at fair value:

	Nationwide Group		Society	
	Carrying value	**Fair value**	**Carrying value**	**Fair value**
2010	£m	£m	£m	£m
Financial assets				
Loans and advances to banks	2,017	2,017	1,960	1,960
Loans and advances to customers:				
Residential mortgages	127,313	124,746	109,721	107,077
Consumer banking	2,143	2,164	2,143	2,164
Commercial lending	22,417	22,724	21,269	21,522
Other lending	556	556	-	-
Financial liabilities				
Shares	120,943	121,423	120,943	121,423
Deposits from banks	8,031	8,035	7,009	7,013
Other deposits	4,509	4,514	11,359	11,364
Due to customers	5,085	5,085	973	973
Debt securities in issue	36,802	36,793	32,184	32,848
Subordinated liabilities	2,166	2,025	2,166	2,025
Subscribed capital	1,524	1,152	1,524	1,152

2009	Nationwide Group Carrying value £m	Nationwide Group Fair value £m	Society Carrying value £m	Society Fair value £m
Financial assets				
Loans and advances to banks (reclassified)	5,033	5,033	4,987	4,987
Loans and advances to customers:				
Residential mortgages	129,916	132,116	112,959	114,973
Consumer banking	2,230	2,230	1,090	1,090
Commercial lending	22,662	21,997	21,383	20,664
Other lending	661	661	-	-
Financial liabilities				
Shares	128,292	128,903	128,292	128,903
Deposits from banks	13,283	13,297	12,450	12,464
Other deposits	5,673	5,648	10,888	10,863
Due to customers	4,371	4,371	810	810
Debt securities in issue	34,794	32,852	32,452	31,075
Subordinated liabilities	2,233	1,518	2,233	1,518
Subscribed capital	1,526	753	1,526	753

Loans and advances to customers

Loans and advances to customers are net of provisions for impairment. The estimated fair value of loans and advances represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair value.

Deposits and borrowings

The estimated fair value of deposits with no stated maturity, which includes non-interest bearing deposits, is the amount repayable on demand. The estimated fair value of fixed interest-bearing deposits and other borrowings without quoted market price is based on discounted cash flows using interest rates for new debts with similar remaining maturity.

Debt securities in issue

The aggregate fair values are calculated based on quoted market prices. For those notes where quoted market prices are not available, a discounted cash flow model is used based on a current yield curve appropriate for the remaining term to maturity.

Fair value measurement

The following table provides an analysis of financial assets and liabilities held on the Nationwide Group balance sheet at fair value, grouped into levels 1 to 3 based on the degree to which the fair value is observable:

2010 Nationwide Group	**Level 1 £m**	**Level 2 £m**	**Level 3 £m**	**Total £m**
Financial Assets				
Investment securities - AFS	**12,130**	**11,149**	**106**	**23,385**
Investments in equity shares	**-**	**7**	**79**	**86**
Derivative financial instruments	**-**	**4,852**	**-**	**4,852**

	12,130	**16,008**	**185**	**28,323**
Financial Liabilities				
Derivative financial instruments	**-**	**(4,898)**	**(44)**	**(4,942)**
Other deposits - PEB	**-**	**-**	**(1,128)**	**(1,128)**
	-	**(4,898)**	**(1,172)**	**(6,070)**

2009 (restated) **Nationwide Group**	**Level 1** **£m**	**Level 2** **£m**	**Level 3** **£m**	**Total** **£m**
Financial Assets				
Investment securities - AFS	6,895	14,146	182	21,223
Investments in equity shares	-	5	76	81
Derivative financial instruments	-	5,859	-	5,859
	6,895	20,010	258	27,163
Financial Liabilities				
Derivative financial instruments	-	(5,948)	(38)	(5,986)
Other deposits - PEB	-	-	(75)	(75)
	-	**(5,948)**	**(113)**	**(6,061)**

Level 1: Fair value derived from unadjusted quoted prices in active markets for identical assets or liabilities, e.g. G10 government securities.

Level 2: Fair value derived from inputs other than quoted prices that are observable for the asset or liability, either directly (i.e. a price) or indirectly (i.e. derived from prices), e.g. most investment grade and liquid bonds, asset backed securities, certain collateralised debt obligations (**CDOs**), collateralised loan obligations (**CLOs**) and over-the-counter (**OTC**) derivatives.

Level 3: Inputs for the asset or liability are not based on observable market data (unobservable inputs), e.g. private equity investments, derivatives including an equity element, deposits including an equity element, some CDOs and certain asset backed securities and bonds.

Following guidance issued subsequent to publishing the 2009 Annual Report and Accounts the Nationwide Group has reviewed the allocation of assets into the above three categories. Previously, only investments in equity shares were classified in the Level 3 portfolio (2009: £81 million) and UK government securities in the Level 1 portfolio (2009: £4,720 million) with all other items classified in the Level 2 portfolio.

There were no significant transfers between the Level 1 and 2 portfolios during the year. Composition of and movements in the Level 3 portfolios are described below.

The main constituents of the Level 3 portfolio are as follows:

Investment securities – AFS

Collateralised debt obligations

CDOs purchased from third parties valued on the basis of the status of the asset. Impaired assets are priced on the basis of recoverability using an internal model based on observable and unobservable performance assumptions. Not impaired assets are valued using independent, third party quotes.

Financial institutions

Investments in Icelandic institutions valued on the basis of recoverability using the latest market information on the underlying position of the issuing institution.

Other

Bonds and asset backed products, one-off in relation to the remainder of the book or not actively traded in the market. These instruments are valued on the basis of the status of the asset, with those considered to be

impaired valued through an assessment of recoverability and those not impaired priced from independent, third party quotes, based on proxy assets where necessary.

Investments in equity shares

Investments in unquoted equity instruments. Valuations are subjective in nature but have been consistently applied over time. Full valuations are performed bi-annually using details of the underlying funds combined with earnings estimates and applicable discount rates at the reporting date.

Derivative financial instruments (liabilities)

Equity linked derivatives with external counterparties which economically match the investment return payable by the Nationwide Group to customers invested in the Permanent Equity Bond (**PEB**) product. The derivative is linked to the performance of specified stock market indices and has been valued by the external counterparty.

Other deposits - PEB

Deposit accounts with the potential for stock market correlated growth linked to the performance of specified stock market indices. The PEB liability is valued at a discount to reflect the time value of money, overlaid by a fair value adjustment representing the expected return payable to the customer. The fair value adjustment has been constructed from the valuation of the associated derivative as valued by the external counterparty.

Level 3 Portfolio – movements analysis

The table below analyses movements in the Level 3 portfolio:

2010 Nationwide Group	**Investment securities - AFS £m**	**Investments in equity shares £m**	**Derivative financial instruments - liabilities £m**	**Other deposits £m**	**Total £m**
As at 5 April 2009 (adjusted)	182	76	(38)	(75)	145
Total (loss) /gain:					
Income statement	**(6)**	**(8)**	**(6)**	**14**	**(6)**
Other comprehensive income	**31**	**4**	**-**	**-**	**35**
Purchases	**-**	**8**	**-**	**-**	**8**
Issues	**-**	**-**	**-**	**(1,068)**	**(1,068)**
Settlements	**(83)**	**(1)**	**-**	**1**	**(83)**
Transfers out of Level 3	**(18)**	**-**	**-**	**-**	**(18)**
As at 4 April 2010	**106**	**79**	**(44)**	**(1,128)**	**(987)**

Income statement losses on investment securities – AFS relate to foreign exchange revaluation losses (£7 million) offset by an impairment reversal (£1 million). Income statement losses for investments in equity shares are mostly due to impairment of one of the funds. Losses on derivative financial instruments – liabilities and other deposits relate to mark to market activity in the period.

Movements in other comprehensive income are unrealised gains in the AFS reserve on investment securities – AFS and investments in equity shares due to increases in the prices obtained from the market for the instruments held.

Transfers out of the Level 3 portfolio were largely due to increased market activity on instruments with previously unobservable prices and relate primarily to commercial mortgage backed securities.

Gains/losses recognised during the year on the Level 3 portfolio held at the year end (excluding settlements and transfers) have been recognised in the income statement or statement of comprehensive income as follows:

2010 Nationwide Group	Investment securities - AFS £m	Investments in equity shares £m	Derivative financial instruments liabilities £m	Other deposits £m	Total £m
Recognised in the income statement					
Net interest (expense)/income	**(4)**	**(1)**	**1**	**-**	**(4)**
Other income/(expense)	**1**	**(7)**	**(7)**	**14**	**1**
Recognised in other comprehensive income					
Fair value movement taken to equity	**24**	**4**	**-**	**-**	**28**

Level 3 Portfolio – sensitivity analysis

The table below provides sensitivity analysis of reasonably possible alternative valuation assumptions for the assets in the Level 3 portfolio.

2010 Nationwide Group	Carrying value £m	Increase in fair value £m	Decrease in fair value £m
Investment securities – AFS:			
• Collateralised debt obligations	**69**	**33**	**(67)**
• Financial institutions	**13**	**8**	**(4)**
• Other investments	**24**	**7**	**(3)**
Investments in equity shares	79	2	(15)
	185	**50**	**(89)**
Increases/(decreases) in fair value would be recognised in:			
• Income statement	**-**	**15**	**(6)**
• Statement of other comprehensive income (accumulated in the AFS reserve)	**-**	**35**	**(83)**
	-	**50**	**(89)**

The stresses take account of the nature of valuation techniques used, as well as the availability and reliability of observable proxy and historic data. The sensitivity methodologies are based on a reliable reference source or scenario based on alternative market views. The level of shift of scenarios applied is considered for each product and varied according to the quality of the data and variability of the underlying market.

The sensitivities used to derive the results in the above table have not been offset by the impact of hedge accounting. Increases in fair values of the PEB derivative financial instruments would be offset by decreases

in the fair values of the associated PEB deposit and vice versa. These items have therefore been excluded from the table above.

Investment securities – AFS

Collateralised debt obligations

Impaired assets in this category are highly leveraged and therefore all potential outcomes are considered. Sensitivity on assets which have not been impaired has been calculated by assessing movements in the preceding 12 months on an applicable market index.

Financial institutions

All assets of this type are impaired; therefore, the unobservable input relates to the underlying assets and liabilities of the related institution. Sensitivities have been calculated by considering the possible net asset position of these institutions.

Other investments

The diverse range of assets included in other investments, some of which are impaired, dictates that a variety of methods be used to calculate potential sensitivities. These include:

- A local authority bond where the impact of applicable credit spreads has been calculated;
- A corporate bond where a shift of +/-1% in underlying values has been used;
- A government guaranteed security where the preceding 12 months on an applicable market index were used; and
- A UK student loan security where, for the note held, all potential outcomes are considered.

Investments in equity shares

Sensitivities in these holdings have been based on the variance in underlying valuation seen in these holdings over the past 12 months.

MANAGEMENT

Our business is under the control of our Board of Directors. Each director is elected by the members, retires by rotation and is eligible for re-election every three years. The executive directors are the Chief Executive, the Group Finance Director, the Group Product & Marketing Director, the Group Operations Director, the Group Distribution Director and the Group Development Director. 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 our rules, the Board of Directors must consist of not less than eight directors of whom not less than five must be present at a Board Meeting to form a quorum.

No potential conflicts of interest exist between any duties to us, as Issuer, of the persons on the board of directors and their private interests or other duties.

Directors

The following table presents information with respect to current directors:

Name	Age	Position	Other Directorships
Geoffrey Howe	60	Chairman	Gateway Electronics Components Ltd Investec Ltd, South Africa Investec plc Jardine Lloyd Thompson Group plc, Chairman The Cavendish School Charitable Trust Ltd
Robert Walther	66	Joint Deputy Chairman	Derbyshire Building Society Staff Pension Scheme Trustee Co Ltd Fidelity European Values plc, Chairman
Graham Beale	51	Chief Executive	Visa Europe Ltd Visa Europe Services Inc.
Mark Rennison	49	Group Finance Director	Confederation Mortgage Services Ltd Exeter Trust Ltd First Nationwide LBS Mortgages Ltd Nationwide Anglia Property Services Ltd Nationwide Investments (No.1) Ltd Nationwide BES Fund Managers Ltd Nationwide Housing Trust Ltd Nationwide Lease Finance Ltd Nationwide Mortgage Corporation Ltd Nationwide Syndications Ltd Staffordshire Financial Services Ltd The Mortgage Works (UK) plc UCB Home Loans Corporation Ltd
Chris Rhodes	47	Group Product & Marketing Director	Derbyshire Home Loans Ltd

Name	Age	Position	Other Directorships
			E-Mex Home Funding Ltd The Mortgage Works (UK) plc UCB Home Loans Corporation Ltd at.home nationwide ltd Jubilee Mortgages Ltd
David Rigney	46	Group Operations Director	Dunfermline Building Society Nominees Ltd NBS Fleet Services Ltd Monument (Sutton) Ltd Nationwide Anglia Property Services Ltd Staffordshire Leasing Ltd The Derbyshire (Premises) Ltd
Stella David	47	Non-executive Director	William Grant & Sons Holdings Ltd William Grant & Sons Ltd William Grant & Sons Distillers Ltd New Look Retail Group Ltd
Derek Ross	59	Non-executive Director	Access Bank (UK) Ltd European Central Counterparty Ltd Friends Provident (UK) Holdings Ltd Friends Provident Group Ltd
Suzanna Taverne	50	Non-executive Director	FCE Bank plc The National Council for One Parent Families| Gingerbread, Chair The Design Museum Vlessing & Taverne Ltd Good Governance Network Consumer Credit Counseling Service
Matthew Wyles	51	Group Distribution Director	Confederation Mortgage Services Ltd Exeter Trust Ltd Jubilee Mortgages Ltd LBS Mortgages Ltd Staffordshire Financial Services Ltd The Mortgage Works (UK) plc UCB Home Loans Corporation Ltd
Tony Prestedge	40	Group Development Director	
Bill Tudor John	65	Joint Deputy Chairman	Grainger plc The Grainer Trust Employee Trustee Ltd NFTS Foundation Wales in London Ltd Lehman Brothers European Mezzanine 2004 SICAV

Name	Age	Position	Other Directorships
Michael Jary	46	Non-executive Director	Duchy Originals Ltd Duchy Originals Foods Ltd OC&C Peleus Advisors LLP OC&C Strategy Consultants Limited Partnership (Guernsey) OC&C Resources Ltd OC&C Strategy Consultants LLP OC&C Strategy Consultants International (Netherlands) The Prince's Social Enterprises Ltd
Roger Perkin	62	Non-executive Director	Electra Private Equity plc Evolution Group plc
Alan Peter Dickinson	60	Non-executive Director	Lombard North Central Plc

Biographies

Geoffrey Howe

Chairman

Geoffrey Howe joined the Board in 2005 and became Chairman of the Society in July 2007. He brings considerable regulatory, management and legal experience to the Board. He is currently Chairman of Jardine Lloyd Thompson Group plc and a director of Investec plc. Geoffrey was formerly Chairman of Railtrack Group plc, a director and General Counsel of Robert Fleming Holdings Limited and Managing Partner of international law firm Clifford Chance.

Robert Walther

Joint Deputy Chairman and Senior Independent Director

Robert Walther joined the Board in 2002 and became Deputy Chairman in 2006. His background is in investment and insurance. Robert is currently Chairman of the Derbyshire and Cheshire building societies Pension Funds and of Fidelity European Values plc. He was formerly Chairman of both the Nationwide and Portman Building Societies Pension Funds and of JPM Claverhouse Investment Trust and a non-executive director of BUPA. He was Chief Executive of Clerical Medical from 1995 to 2001, which he joined in 1965.

Graham Beale

Chief Executive

Graham Beale joined the Society in 1985. He is a chartered accountant by training and was appointed to the Board as Group Finance Director in April 2003. He took up his current role as Chief Executive in April 2007. He is also a non-executive director of Visa Europe Limited and of Visa Europe Services. Prior to his appointment to the Board, he worked extensively in the Finance function and held a number of senior, general management positions within the Society.

Mark Rennison

Group Finance Director

Mark Rennison is a chartered accountant who joined the Society and was appointed to the Board in February 2007. He is responsible for Finance, Treasury, Risk Management, Strategy & Planning and Internal Audit. He is a director of various Society subsidiaries. Prior to his appointment, Mark was a partner at PricewaterhouseCoopers LLP where he worked in the financial services practice with a specific focus on retail and corporate banking. He has also worked extensively with group treasury operations, leasing and asset finance businesses.

Chris Rhodes

Group Product & Marketing Director

Chris is a chartered accountant who joined the Society on 20 April 2009 from Abbey Santander, where he was Director of Retail Distribution for Alliance & Leicester. Prior to that he held a number of Board positions at Alliance & Leicester, including Group Finance Director and Managing Director of Retail Banking. Chris is responsible for Mortgages, Insurance and Investments, Savings, Banking (current account, credit cards and personal loans) and Commercial Lending together with Group Marketing.

David Rigney

Group Operations Director

David Rigney joined the Society in 1999 and was appointed to the Board in 2006. He is currently responsible for Member Account Administration, Business Protection, Lending Control, Business Services, Procurement and Regional Brands. He is a director of various Society subsidiaries and was formerly a non-executive director of H.M. Land Registry. Prior to joining the Society, David held a number of senior management positions in both the public and private sector.

Stella David

Non-Executive Director

Stella David joined the Board in 2003 and became Chairman of the Remuneration Committee in 2006. She brings considerable expertise in marketing, general management, branding and the management of consumer goods. She is the Chief Executive Officer of William Grant & Sons Limited and was formerly Global Chief Marketing Officer of Bacardi Limited and prior to this she was Vice President of its Global Operations. Stella is also a non-executive director of New Look Retail Group Limited. She will be retiring at the AGM on 22 July 2010 and will not be seeking re-election.

Derek Ross

Non-Executive Director

Derek Ross joined the Board in 2004 and became Chairman of the Society's Audit Committee in 2006. He has extensive experience in audit and financial advisory services, particularly in the areas of treasury and risk management. Prior to his appointment he was a senior partner of Deloitte & Touche LLP for 18 years and previously for seven years a corporate treasurer and tax manager with Black & Decker. He is currently a director and Chairman of the Audit Committee of European Central Counterparty Limited and of Access Bank. He also serves as a director of Friends Provident (UK) Holdings Limited and of Friends Provident Group Limited. Derek will be retiring at the AGM on 22 July 2010 and will not be seeking re-election.

Suzanna Taverne

Non-Executive Director

Suzanna Taverne joined the Board in 2005. She brings expertise in strategy, finance and management. She is currently a director of FCE Bank plc, a Trustee of the Consumer Credit Counseling Service and of the Design Museum and Chair of the National Council for One Parent Families / Gingerbread. Suzanna was formerly a director of Imperial College London, Managing Director of the British Museum, Director of Strategy at Pearson plc and Finance Director of The Independent. She also worked for Saatchi and Saatchi plc and S.G. Warburg & Co Ltd.

Matthew Wyles

Group Distribution Director

Matthew Wyles was appointed to the Board in August 2007 and was previously Group Development Director of Portman Building Society. Prior to joining Portman Building Society in 1997, Matthew's career was in general insurance, latterly as Executive Director within the Global Reinsurance Division at Willis plc. Matthew is responsible for the branch network, the Nationwide Group's call centres, online operations and group intermediary sales across all of the Nationwide Group's brands. He is also currently serving a second term as Chairman of the Council of Mortgage Lenders.

Tony Prestedge

Group Development Director

Tony Prestedge was appointed to the Board in August 2007 and was previously Group Operations Director of Portman Building Society. He has held a number of senior management and executive roles at Barclays plc, including Managing Director Home Finance, and was a member of the Retail Banking Executive Committee. Tony is accountable for the Nationwide Group's Strategic Transformation and his divisional reports include Transformation Planning and IT Strategy, Transformation Delivery and Change Management, Human Resources and Technology Services. Additionally Tony is accountable for leading the implementation of the Banking Systems Replacement Programme.

Bill Tudor John

Joint Deputy Chairman

Bill Tudor John joined the Board in August 2007 as Joint Deputy Chairman and was previously Chairman of Portman Building Society. Between 1972 and 2000 he was a Partner in the international law firm Allen & Overy LLP, the last six years of which he was the Senior Partner. He has considerable experience in the law and investment banking. He is currently a Managing Director of Nomura International plc, director of Lehman Brothers European Mezzanine 2004 SICAV, Wales In London Limited and Grainger plc. He is also a member of the H.M. Treasury appointed Banking Liaison Panel. He is a fellow of Downing College, Cambridge.

Michael Jary

Non-Executive Director

Michael Jary joined the Board in January 2009. He is the Managing Partner of OC&C Strategy Consultants, a global strategy consulting firm with 15 offices worldwide, having been one of the founders of the firm in 1987. He is an advisor to the boards of leading retail and consumer companies in Europe, the USA and Asia. He is a regular commentator on the retail industry, the co-author of a number of books including 'Retail

Power Plays' and a guest lecturer at INSEAD Business School. He is also Chairman of Duchy Originals and of The Prince's Social Enterprises.

Roger Perkin

Non-Executive Director

Roger Perkin joined the Nationwide Board as a non-executive director on 20 April 2010. Roger is a former partner at Ernst & Young, and has spent 40 years in the accounting profession. During his time at Ernst & Young he has worked with many blue chip clients, including UBS, and has advised boards across the spectrum of financial services, including banking, insurance, fund management and private equity. He is also a non-executive director at Electra Private Equity Plc and Evolution Group Plc, and chairs the audit committees of both companies.

Alan Peter Dickinson

Non-Executive Director

Alan joined the Nationwide Board in June 2010. Prior to his retirement in June 2010, Alan spent more than 35 years in banking, originally joining the Royal Bank of Scotland in 1973, having started his career with Westminster Bank in 1968. He is an experienced retail and corporate banker with a strong risk and general management track record at the highest levels, including the re-engineering of RBS in the 1990s, the integration of the NatWest and RBS corporate businesses from 2000, and the management of the core UK retail and corporate franchise of RBS and NatWest through the financial crisis in 2008 and 2009. He is a former Chief Executive of both RBS UK and the Bank's market leading UK Corporate Banking business.

Committees of Our Board of Directors

Our Board of Directors operates through its meetings and through its four main committees, the Audit Committee, the Nomination Committee, the Remuneration Committee and the Board Risk Committee. To the extent that matters are not reserved to our Board of Directors, responsibility is delegated to the Chief Executive, who is assisted by the Executive Directors' Committee and the Executive Risk Committee.

The Audit Committee, in accordance with its commitment to good corporate governance, seeks to ensure that we maintain sound controls in relation to the responsibilities of the directors, meets regularly with senior management and the internal audit department and regularly reviews its relationship with the external auditors.

The Nomination Committee regularly reviews the balance of skills and experience on the Board and the requirements of the business. It also considers the appointment of new directors and makes recommendations to the Board.

The Remuneration Committee is responsible for our director and executive officer remuneration policy. We have designed our policy to ensure that director and executive officer remuneration reflects performance and allows us to attract, retain and motivate a sufficient number of talented executives. The Remuneration Committee reviews, evaluates and makes recommendations to the Board regarding our executive compensation standards and practices, including basic salaries, bonus distributions, pension fund contribution and the medium-term incentive scheme. The Remuneration Committee consists of all non-executive directors.

The Board Risk Committee, which meets seven times a year, has responsibility for overseeing the risk framework, policies and risk appetite, and making recommendations to the Board.

The Executive Directors' Committee is our key operational committee which oversees the day-to-day operations of our business. This committee meets once each week, reviews all matters that are to be presented to the Board of Directors, and is composed of our Chief Executive and the five other executive directors.

The Executive Risk Committee, which meets monthly, is responsible for ensuring a co-ordinated approach across all risks and oversight of the risk committees. The Committee's membership comprises the Executive Directors, the Group Director (Treasury) and the Divisional Director Risk Management. The risk committees comprise the Asset and Liability Committee (ALCO), the Retail Credit Committee and the Commercial and Treasury Credit Committee.

The ALCO sets operational limits to control exposures so that they are within overall limits set by our Board of Directors. The ALCO meets on a weekly and monthly basis. The ALCO comprises the Executive Directors, Group Director (Treasury), two senior officers and a senior manager. For more information about the ALCO, see the section entitled "*Financial Risk Management – Strategy in using financial instruments – Control of derivatives*".

The Retail Credit Committee and the Commercial and Treasury Credit Committee are responsible for establishing our credit strategy and monitoring the credit performance of all our retail and wholesale credit portfolios, respectively.

The two Credit Committees set a wide range of credit exposure limits, receive regular reports on the performance of all portfolios and report to our Board of Directors. The Retail Credit Committee is comprised of two executive directors, four senior officers and two senior managers. The Commercial and Treasury Credit Committee is comprised of two executive directors, three senior officers and two senior managers. For more information about the Credit Committees and credit risk management, see the section entitled "*Financial Risk Management – Principal risks – Credit risk*".

Compensation

For the financial year ended 4 April 2010 the aggregate amount of compensation, excluding pension benefits, that we paid to all directors and executive officers as a group totalled £8.05 million.

Directors receive an annual bonus which only pays out if performance targets are met under pre-defined Nationwide Group performance, local performance (which relates to the area of the business for which the director is directly responsible) and individual performance measures. No payment has been made under the Annual Performance Pay Plan this year.

The Medium Term Incentive Plan (MTIP) rewards our directors for sustained performance and achieving challenging financial targets over a three year performance cycle. A new three year performance cycle starts each year. The maximum incentive that could be paid during the year to the Chief Executive is 80% of base salary and for other executive directors it is 55%. The maximum can only be paid if Nationwide out-performs its competitors. If performance falls below the minimum acceptable performance, then no bonus will be paid. The Remuneration Committee reviews performance against targets each financial year.

In addition executive directors receive other benefits including a car allowance, healthcare and mortgage allowance.

Directors' Loans

As at 4 April 2010, we had loans to directors or persons connected to directors totalling £0.90 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. Our directors and other employees are eligible for discounts on residential mortgage loans.

We maintain a register containing the details of all loans, transactions and other arrangements made between our directors (and persons connected with our directors) and Nationwide or its subsidiaries. This register is available for inspection at our annual general meetings and during normal business hours at our principal office during the fifteen days prior to our annual general meeting.

Management Employee Pension Schemes

Three executive directors, G.J. Beale, S.D.M. Bernau, and D.J. Rigney, are members of the executive section of the Nationwide Pension Fund, and they have been able to accrue a pension of 1/30th of pensionable salary for each year of service up to a maximum of two-thirds of pensionable salary. Pension entitlements are reduced to take account of any entitlement a director may have under the Nationwide Group's funded unregistered pension scheme and any elections to restrict pension accrual. Two executive directors have elected to receive pension allowances in compensation for restricting pension accrual, and details can be found in the notes to the Report of the Directors on Remuneration in our financial statements.

T.P. Prestedge is a member of the Portman Building Society Executive Stakeholder Scheme.

Mr. Rennison receives payments to compensate him for pension benefits that he gave up when he left his previous employer to join Nationwide. He also receives pension accrual under our 1/54th Career Averaged Re-valued Earnings Pension Scheme and a monthly pension allowance.

M.P.V. Wyles is a member of the executive section of the Portman Building Society Final Salary Scheme and is able to accrue a pension of 3% of pensionable salary for each year of service up to a maximum of two-thirds of the scheme earnings cap. He also receives a monthly pension allowance.

Related-Party Transactions

For information on transactions with related parties, see note 47 to our audited consolidated financial statements incorporated by reference herein.

COMPETITION

Industry Background

Our main competitors have traditionally been providers of personal financial services in the United Kingdom. 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 a blurring of the boundaries between building societies, banks and insurance companies in the United Kingdom. In addition, new providers have emerged as competitors in all areas of the UK personal financial services market. A description of the traditional types of organisations with which we continue to compete as well as a description of certain new competitors is set forth below.

Building Societies and UK Banks

Over the past 25 years, many building societies have merged with other building societies or, in a number of cases, 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 139 in 1985 to 50 as at 1 June 2010. Within the UK retail banking sector there have also been a number of significant business combinations and this trend was accelerated by the financial crisis which began in 2007. Building societies today continue to hold an important share of the UK mortgage and savings market and have been recognized by recent UK governments as bringing valuable diversity and competition to the UK banking market. For further information about the UK residential mortgage market and U.K retail deposit market see below.

UK Insurance Companies

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

Other Competitors

A number of large retailers sell financial services to their customers, often through co-operation arrangements with existing banks and insurance companies. In addition, foreign banks, investment banks, insurance and life assurance companies have at various times been active in UK personal financial services, particularly the mortgage and retail savings markets, and a number of companies have expressed a desire to enter the market. Companies are using low cost telephone, mail and internet based distribution channels to offer competitively priced retail savings products and mortgages. The internet, in particular, provides opportunities for further competition from other new banking entrants. The use of the intermediary sector also allows new entrants to gain access to the UK mortgage market.

The UK Residential Mortgage Market

The table below sets out information for the last three years concerning year-end balances of UK lending secured on residential property and the proportions held by building societies, banks and us.

Year ended 31 December	Total Balances[1]	Building Societies[1]	Banks[1]	Others	Our share of total UK residential mortgages[1]
	(£ billions, except percentages)				
2009	1253.3	15.4%	59.3%	24.9%	10.8%
2008	1224.8	17.5%	47.9%	34.6%	10.8%
2007	1187.0	17.1%	52.8%	30.1%	10.2%

Note:

(1) Source: Council of Mortgage Lenders (using information based upon Bank of England data), except for information regarding our balances which are taken from our own data. Building society figures include our own balances.

Although the overall size of the new mortgage market has shrunk considerably since 2007, the nature of competition is essentially unchanged, in that it involves defending the existing stock of balances and competing for the flow of new lending. New lending is driven by first-time buyers or next-time buyers remortgaging, changing homes or extending their mortgages. In most cases this is for residential purposes, although the popularity of buy to let has grown fairly rapidly in recent years. In recent years, the proportion of the UK population owning their own homes has stabilised at just under 70%. Although this figure is high by European standards, we believe it is unlikely to change significantly in the near future, despite the increase in the buy to let sector. The impact of the credit crunch is still evident in the mortgage market, with far fewer products available which permit high LTV ratios and significantly improved margins over those evident in 2007. As such, competition is driven by a combination of price, risk profile and access to funding by lenders.

UK gross residential mortgage lending in the year ended 31 March 2010 was £139 billion, a decrease of 33% on UK gross residential mortgage lending of £208 billion in the year ended 31 March 2009. UK net residential mortgage lending decreased by 48% during the same period, falling to £10.4 billion in the year ending 31 March 2010 from £20 billion in the year ending 31 March 2009.

In recent years, a feature of the UK mortgage market became the differential pricing structure that developed in response to increased competition. New customers were offered attractive interest rates in the form of discounts or cash-backs for a period of time, so that a growing number of residential mortgage borrowers actively search to replace existing mortgages with new mortgages at lower rates rather than move on to lenders' backbook interest rates. The rapid fall in interest rates since the start of 2009 and the decline in house prices has meant that a majority of borrowers now stay on lenders' backbook products at the end of their initial mortgage deal period. This may be either through necessity, as the LTV ratio of their house has risen in line with price falls and they are unable to refinance, and/or due to the fact that the fall in rates has meant that the backbook rates are more in line with, or better than, front book deal pricing. In the year to 31 March 2010, remortgaging totalled £44.9 billion, down 56% on the figure in the year to 31 March 2009. Overall, the profitability of mortgage lending has improved as lenders are able to extract larger margins on new business and, in some cases, have been able to widen margins on backbook rates.

As a building society, we do not have equity shareholders and, therefore, do not pay equity dividends. Instead, we seek to return value to our members by generally offering higher savings interest rates and lower borrowing interest rates than our main competitors. However, our conscious decision not to compete aggressively for new retail funding during the past year meant that we allowed a small outflow of mortgage balances over the financial year ended 4 April 2010.Over the financial year ended 4 April 2010, the average LTV ratio of new mortgage lending was 63% compared with 60% in the same period a year earlier.

The UK Retail Deposit Market

The UK retail deposit market is dominated by building societies, banks and National Savings, a Government-sponsored savings and investment organisation. Below is a table breaking down the total UK retail deposit market by type of financial institution compiled from details published by the Bank of England.

Year ended 31 December	Total UK retail deposits[(1)]	Building societies' share of total UK retail deposits[(1)]	Banks' share of total UK retail deposits[(1)]	Others[(1)]	Our share of total UK retail deposits[(1)]
	(£ billions, except percentages)				
2009	1064.8	20.1%	70.6%	9.2%	11.3%
2008	1040.5	22.5%	68.4%	9.1%	12.0%
2007	984.4	21.6%	70.0%	8.5%	11.2%

Note:

(1) Source: Bank of England, except for information regarding our balances which are taken from our own data.

The UK retail deposit market has become an increasingly commoditised market driven primarily by price, particularly for the flow of new money that generally seeks the most attractive rates available. However the bank failures of 2007 and 2008 and the limits of the FSCS appear to have led some customers to spread their savings across a number of different companies. Older deposit balances have traditionally subsidised the cost of new retail deposits, primarily reflecting customer inertia.

In the last few years, competition for UK retail deposits has increased as new participants, such as foreign banks, supermarkets, insurance/life assurance companies and direct online banking providers have entered the market by offering attractive rates of interest. These new entrants have caused the cost of attracting new retail deposits to increase for existing players in the market and have impacted the flow of new retail deposits. The competition has intensified as banks have sought to rebalance their liabilities away from short-term wholesale and back towards retail funding, a trend which is likely to continue for the next few years.

We believe that increased consumer awareness driven by the press and increased competition has created potentially greater volatility of retail deposit balances both between different organisations and between different accounts within organisations. This, in turn, has resulted in a reduction in the differential between rates paid to existing and new balances as customers transfer to high rate accounts and organisations aim to retain existing balances.

In the face of increased competition and severely reduced liability margins, we made a conscious decision to allow a small outflow of funds over the past year. In the financial year ended 4 April 2010, we experienced a reduction in our UK member retail deposits of £7.3 billion.

Competitive Outlook

In recent years, we have experienced substantial competitive pressure in our traditional UK residential mortgage market and retail deposit market, and we expect this competitive pressure to continue. This pressure is primarily the result of increased price competition, with customers across our entire residential mortgage portfolio seeking to remortgage at a lower interest rate. This is likely to continue for the foreseeable future, resulting in continued pressure on retail spreads for the entire sector.

We expect UK net residential lending in the current financial year to be relatively similar to the previous year at around £11 billion.

SUPERVISION AND REGULATION

European Union Directives

The framework for supervision and regulation of banking and financial services in the United Kingdom has been, and continues to be, heavily influenced by European Union directives that are required to be implemented in member states through national legislation. In March 2000, the adoption by the European Union of the Banking Consolidation Directive (as recast in July 2006) resulted in the consolidation of the main pan-European banking legislation into a single directive. The principal intention underlying the EU Banking Consolidation Directive is the harmonisation of banking regulation and supervision throughout the European Union and Norway, Iceland and Liechtenstein, commonly known as the European Economic Area, or EEA. The EU Banking Consolidation Directive prescribes minimum standards in key areas and requires EEA member states to give mutual recognition to each other's standards of regulation. The EU Banking Consolidation Directive establishes the passport concept, freedom to establish branches in, and to provide cross-border services into, other EEA member states once a credit institution is authorized in its home state.

Although credit institutions are primarily regulated in their home state by a local regulator, the EU Banking Consolidation Directive prescribes minimum criteria for regulation of the authorization of credit institutions and the prudential supervision applicable to them. The local regulator in the UK is the Financial Services Authority. For further information about regulation in the United Kingdom see the subsection entitled "— UK Regulation". Investment firms and other similar institutions that engage in the provision of services relating to securities, derivatives and other similar instruments are subject to a similar regulatory environment and can obtain a passport under the EU Markets in Financial Instruments Directive (Directive (2004/39/EC) (**MiFID**). MiFID, among other things, repealed and replaced the Investment Services Directive and is designed to create a single European market in financial services. It covers most firms previously subject to the Investment Services Directive.

EU legislation transposing the new Basel Capital Accord (commonly referred to as Basel II), through the Capital Requirements Directive, makes substantial changes to the capital adequacy regime set out in the 1988 Basel Capital Accord, as amended. Broadly, the principal changes effected by the revised requirements include the application of risk-weighting and supervisory review of the process of evaluating risk measurement and capital ratios. The requirements were partially implemented at the start of 2007, with more advanced techniques in relation to the calculation of capital requirements for credit risk and operational risk having been implemented at the start of 2008.

Further changes to capital under the Capital Requirements Directive will be implemented in the UK in late 2010/early 2011. These will include changes to the criteria for hybrid tier 1 capital, the control of large exposures and requirements relating to securitization transactions. The requirements for hybrid capital to count as non-core tier 1 capital will be toughened, as will the relative proportions of core, non-core and innovative tier 1 capital. However, it is proposed that existing instruments that do not comply with the new rules will continue to count as capital for a long transitional period.

In addition, consultation is taking place in relation to a further set of changes to the capital rules, including the definition of capital. Representations are being made on behalf of building societies and other mutuals with a view to ensuring that they will not be significantly prejudiced compared to banks in terms of their ability to access core tier 1 capital but the outcome of these consultations is not certain at this stage.

In April 2008, the European Parliament and the Council adopted a second directive on consumer credit (Directive 2008/48/EC) which provides that, subject to exemptions, loans not exceeding €75,000 will be regulated. This directive will repeal and replace the first consumer credit directive and requires member states to implement the directive by measures coming into force by 11 June 2010. Loan agreements secured by land mortgage are exempted from the consumer credit directives. However, the EU Commission has published a White Paper on mortgage credit in December 2007, setting out its tasks for 2008 to 2010

including, among other things, an assessment of the regulation of early repayment charges under mortgages, pre-contract disclosure and interest rate restrictions. The European Commission has stated that in its view it is too early to decide on whether a mortgage directive would be appropriate. Until the final form of any initiatives on mortgage credit is decided and regulatory guidance on UK legislation implementing the second consumer credit directive are published, it is not certain what effect the adoption and implementation of the directive or initiatives would have on our credit businesses.

UK Regulation

Note, the following discussion is based on the existing regulatory regime in the UK. However, it should be noted that on 16 June 2010, the Chancellor of the Exchequer announced the intention of the new coalition government with respect to the following matters:

- the existing tripartite regulatory regime in the UK will be abolished;
- the FSA will cease to exist in its current form;
- a new prudential regulator, which will operate as a subsidiary of the Bank of England, will be created that will carry out the prudential regulation of financial firms in the UK, including banks, investment banks, building societies and insurance companies;
- an independent Financial Policy committee at the Bank of England will be created that will have the tools and the responsibility to look across the economy at the macro issues that may threaten economic and financial stability and take effective action in response; and
- a powerful new Consumer Protection and Markets Authority will be established.

See "*Risk Factors–Future legislative and regulatory changes could force the Nationwide Group to comply with certain operational restrictions, take steps to raise further capital, and/or increase the Nationwide Group's expenses and/or otherwise adversely effect the Nationwide Group's business results, financial condition or prospects.*"

The UK Building Societies Act

The main piece of legislation regulating building societies is the UK Building Societies Act. The UK Building Societies Act governs the creation, authorisation and management of building societies. Prior to 1 December 2001, it also established the Building Societies Commission as the primary body responsible for regulating building societies. On 1 December 2001, the role of the Building Societies Commission as our primary regulator was taken over by the Financial Services Authority pursuant to the ongoing reorganization of the regulation of the UK financial services industry. With the introduction of the Financial Services and Markets Act 2000, certain sections of the UK Building Societies Act were repealed. However, a substantial part of the UK Building Societies Act, including the constitutional parts dealing with the principal purpose of building societies, nature limits, general governance, among others, still remain in force. The UK Building Societies 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 the subsection below entitled "*Financial Services and Markets Act 2000*".

Financial Services and Markets Act 2000

The UK Financial Services and Markets Act 2000 consolidated and harmonised the regulation of financial services in the United Kingdom. As part of this process, the Financial Services Authority became the sole regulatory body responsible for regulating and supervising the financial services industry in the United Kingdom save in respect of certain lending activities.

The Financial Services and Markets Act 2000 imposes an on-going system of regulation and control on building societies. The detailed rules and prudential standards set by the Financial Services Authority are contained in various parts of the FSA Handbook. Parts of the FSA Handbook which are of particular relevance to building societies include the General Prudential Sourcebook, the Prudential Sourcebook for Banks, Building Societies and Investment Firms, the Building Societies Sourcebook and the Building Societies Regulatory Guide.

The following sections set forth some of the concepts for a building society, which is authorised under the Financial Services and Markets Act 2000.

Mutuality

Building societies are mutual organizations that are managed for the benefit of their members, who are primarily retail savings customers and residential mortgage customers. Each member is normally entitled to one vote at a building society's general meeting, regardless of the size of its deposit account or mortgage loan or the number of accounts it 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.

Building societies have a statutory duty to keep accounting records as well as establishing and maintaining systems of control. The Financial Services Authority is empowered to request ad hoc reports regarding compliance with these requirements.

Nature of Membership

The members of a building society fall into two categories. The first category consists of investing or "shareholding" members. Shareholding members are individuals who have made a deposit (also referred to as an "investment") in a share account with a building society or who hold deferred shares in the society, and bodies corporate which hold deferred shares. In this Base Prospectus we refer to deposits in these share accounts as "UK retail member deposits" and to people holding UK retail member deposits as "UK retail member depositors".

There are restrictions on building societies raising funds from individuals other than in the form of deposits in share accounts or by the issue of deferred shares (including permanent interest bearing shares). A subsidiary of a building society may, however, offer deposit accounts which do not confer member status. Deposits in these accounts are referred to as "non-member deposits".

The second category of members are "borrowing" members, that is, persons who have received a loan from the building society which is fully or, if the rules of the society allow, substantially secured on land. Building societies may also make loans that do not confer member status, which generally consist of unsecured loans.

Limitations on Funding and Lending

The UK Building Societies Act imposes limits on the ability of building societies to raise funds and to make loans. Investing shares in a building society, representing UK retail member deposits made with the society, must account for not less than 50% of its total funding. In calculating this amount, a specified amount of deposits made by individuals with a building society's subsidiaries in other EEA member states, the Channel Islands, the Isle of Man or Gibraltar is disregarded. The specified amount is up to 10% of what would have been the society's funding but for the exclusion.

Loans made by a building society and its subsidiaries which are fully secured on residential property must account for not less than 75% of its total trading assets (that is, the total assets of a society and its subsidiaries, plus provisions for bad or doubtful debts, less liquid assets, fixed assets and certain long term insurance funds).

Nature of Capital

We classify UK retail member deposits as shares in our balance sheets. There is a fundamental distinction between a share in a building society and a share in a limited liability company. Holders of ordinary shares in a company normally do not have the right to withdraw their share capital from the company. The share capital of a company is therefore fixed. A UK retail member depositor has a right to withdraw his investment from a building society. The share capital of a building society therefore fluctuates each time UK retail member depositors deposit or withdraw funds from their account. As a result shares in a building society do not form a permanent capital resource. The permanent capital of a building society consists primarily of its reserves and any deferred shares that it has issued. This is because the profits of a building society must be credited to its reserves and may not be distributed to its members other than on the winding-up or dissolution of that society or, in limited circumstances, by way of bonus. In addition, a building society can issue deferred shares, which count towards its permanent capital. These have, in the past, mainly been in the form of permanent interest bearing shares, which have counted towards a society's tier 1 capital. More recently, profit participating deferred shares (a new type of deferred share), have been recognized by the FSA as core tier 1 capital, although these shares have, to date, only been issued by way of exchange for an existing instrument in circumstances of financial stress or as a party of a society's contingent convertible capital (in which case it would only be issued upon a serious decline in the society's capital ratio). Changes to the Capital Requirements Directive which will be implemented in the UK in late 2010/early 2011 will toughen the requirements for tier 1 capital. Permanent interest bearing shares, which are already in existence should retain their capital status by virtue of a long transitional period, however, attention is now focused on seeking to devise an instrument acceptable to the FSA, which would count as core tier 1 capital, and which would be suitable for raising new capital from external investors.

Hedging

The UK Building Societies 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 it will be affected by fluctuations in interest rates, exchange rates, any index of retail prices, any index of residential property prices, any index of the prices of securities or the ability or willingness of a borrower to repay a loan owing to the building society.

Demutualisation

The UK Building Societies Act permits a building society to demutualise by transferring the whole of its business to an existing company (referred to as a "takeover") or to a specially formed company (referred to as a "conversion") so long as the process meets statutory requirements. Any such demutualisation must be approved by members and confirmed by the FSA. The successor company will be a bank, which must be duly authorized to carry on its deposit-taking business by the Financial Services Authority or equivalent EEA regulatory authority.

The member approval threshold required varies depending on the type of demutualisation. In order to convert into a new bank by transferring the society's business to a specially formed company, a minimum of 50% of shareholding members qualified to vote would have to vote on a requisite shareholders' resolution, and a minimum of 75% of those voting would have to support the resolution to convert. In addition, more than 50% of borrowing members who vote would have to vote in favour of a borrowing members' resolution to convert. On a demutualisation as a result of a takeover by an existing bank or other company, then the requirements would be similar except that 50% of shareholding members qualified to vote (or shareholding

members representing 90% by value of the society's shares) must actually vote in favour of the requisite shareholding members' resolution.

Mutual society transfers

The UK Building Societies Act (as modified by the Mutual Transfers Order) 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 Funding and Mutual Societies Transfers Act). The successor subsidiary must be duly authorized to carry on its deposit-taking business by the FSA 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 FSA. The member approval thresholds require a shareholding members' resolution to be passed by a minimum of 75% of shareholding members qualified to vote and voting on the resolution and a borrowing members' resolution to be passed by more than 50% of borrowing members qualified to vote and voting on the resolution.

The Financial Services Authority

The Financial Services Authority currently is the regulator for the UK financial services industry (save in respect of certain lending activities) and is responsible for supervising building societies, banks, friendly societies, insurance companies and other financial institutions. The regulatory objectives of the Financial Services Authority are:

- maintaining market confidence;
- promoting public awareness of the financial markets;
- protecting consumers; and
- reducing financial crime.

The Financial Services Authority 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 Financial Services Authority finds that a financial institution has failed to comply with the requirements under the Financial Services and Markets Act 2000, the Financial Services Authority 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 Office of Fair Trading

The Office of Fair Trading is the consumer and competition authority under the UK Enterprise Act 2002, and is responsible for the issue of licenses under, and for superintending the working and enforcement of, the UK Consumer Credit Act 1974, as amended (the **Consumer Credit Act 1974**). The Office of Fair Trading and other bodies may enforce consumer legislation under the Enterprise Act 2002 by:

- seeking an informal undertaking, or a formal undertaking, from a business; or
- seeking a court enforcement order against a business.

Authorisation under the Financial Services and Markets Act 2000

The Financial Services and Markets Act 2000 prohibits any person from carrying on a "regulated activity" by way of business in the UK unless that person is authorized or exempt under this Act. Regulated activities include: deposit-taking, mortgage activities (such as entering into, administering, or advising or arranging in respect of, regulated mortgage contracts), 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). We are authorised for, among other things, deposit-taking and mortgage activities. We and our subsidiary Nationwide Unit Trust Managers Limited are authorized for certain investment activities. The Financial Services and Markets Act 2000 also prohibits financial promotions in the UK unless the promotion is issued or approved by an authorized person or exempt from such requirements.

Lending

The Financial Services and Markets Act 2000 regulates mortgage credit within the definition of "regulated mortgage contract" and also regulates certain other types of home finance. A credit agreement is a regulated mortgage contract if it is entered into on or after 31 October 2004 and, at the time it is entered into: (a) the credit agreement is one under which the lender provides credit to an individual or to trustees; (b) the contract provides for the repayment obligation of the borrower to be secured by a first legal mortgage on land (other than timeshare accommodation) in the UK; and (c) at least 40% of that land is used, or is intended to be used, as or in connection with a dwelling by the borrower or (in the case of credit provided to trustees) by an individual who is a beneficiary of the trust, or by a related person.

If prohibitions under the Financial Services and Markets Act 2000 as to authorisation or financial promotions are contravened, then the affected regulated mortgage contract is unenforceable against the borrower without a court order. The FSA Handbook part Mortgages and Home Finance: Conduct of Business Sourcebook, sets out rules in respect of regulated mortgage contracts and certain other types of home finance.

Any credit agreement intended to be a regulated mortgage contract or unregulated might instead be wholly or partly a regulated by the Consumer Credit Act 1974 or treated as such, and any credit agreement intended to be regulated by the Consumer Credit Act 1974 or unregulated might instead be a regulated mortgage contract, because of technical rules on determining whether the credit agreement or any part of it falls within the definition of a regulated mortgage contract and changes to credit agreements.

The Consumer Credit Act 1974 regulates credit within the definition of "regulated agreement". A credit agreement is a regulated agreement if: (a) the borrower is or includes an "individual" as defined in this Act; and (b) the credit agreement is not an exempt agreement under this Act. Certain financial limits in respect of the credit provided applied to credit agreements entered into before 6 April 2008, or before 31 October 2008 in the case of Buy To Let mortgages satisfying prescribed conditions. Buy To Let mortgages entered into on or after 31 October 2008 and satisfying prescribed conditions are exempt agreements under the Consumer Credit Act 1974.

If requirements under the Consumer Credit Act 1974 as to licensing of lenders or brokers or entering into and documenting a credit agreement are not met, then the affected regulated agreement is unenforceable against the borrower without an order of the Office of Fair Trading or court order or (for agreements entered into before 6 April 2007) is totally unenforceable, depending on the circumstances. Under Section 75 of the Consumer Credit Act 1974, a lender is liable to a customer in relation to misrepresentation and breach of contract by a supplier in a transaction financed by the lender, where the related credit agreement is or is treated as entered into under pre-existing arrangements, or in contemplation of future arrangements, between

the lender and the supplier; and the lender has a statutory indemnity from the supplier against such liability, subject to any agreement between the lender and the supplier.

Insurance

One of our subsidiaries undertakes insurance business. Our offshore captive insurer, Foundation Insurance Limited, is a company incorporated under the laws of the Isle of Man and is regulated by the Isle of Man Insurance and Pensions Authority.

Nationwide Building Society is also authorized for carrying out insurance mediation. The FSA Handbook part Insurance: Conduct of Business Sourcebook, sets out rules in respect of non-investment insurance.

Financial Services Compensation Scheme

The Financial Services and Markets Act 2000 established the Financial Services Compensation Scheme, or FSCS, which pays compensation to eligible customers of authorized financial services firms which are unable, or are likely to be unable, to pay claims against them. The levels of compensation are, for example, for firms declared in default on or after 1 January 2010: (i) for deposits, 100% of the first £50,000; (ii) for mortgage advice and arranging, 100% of the first £50,000; and (iii) for insurance, 90% of the claim with no upper limit (except compulsory insurance is protected in full). The FSCS only pays compensation for financial loss. Compensation limits are per person, per firm and per type of claim. Directive 2009/14/EC, amending Directive 94/19/EC on deposit guarantee schemes, 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.

Financial Ombudsman Service

The Financial Services and Markets Act 2000 established the Financial Ombudsman Service, or FOS, which determines complaints by eligible complainants in relation to authorized financial services firms, consumer credit licensees and certain other businesses, in respect of activities and transactions under its jurisdiction. The FOS determines complaints on the basis of what, in its opinion, is fair and reasonable in all the circumstances of the case. The maximum level of money award by the FOS is £100,000 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.

Other Relevant Legislation & Regulation

The EU anti-money laundering regime has been amended by the implementation of the EU Third Money Laundering Directive, which has imposed requirements in relation to such matters. As a result, the UK Money Laundering Regulations 2007 place a requirement on us to verify the identity and address of customers opening accounts with us, 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 UK Data Protection Act 1998 regulates the processing of data relating to individual customers. The UK Unfair Terms in Consumer Contracts Regulations 1999 (together with, insofar as applicable, the Unfair Terms in Consumer Contracts Regulations 1994) apply to consumer contracts entered into on or after 1 July 1995. The main effect of these Regulations is that a contract term which is "unfair" will not be enforceable against a consumer. This applies to, among other things, mortgages and related products and services. The Financial Services Authority has issued statements of good practice in this regard in May 2005 and January 2007, and worked with the Office of Fair Trading to allocate responsibility for regulation of mortgage products.

A framework for an unclaimed assets scheme was introduced on 12 March 2009 under the Dormant Bank and Building Society Accounts Act 2008 to enable money in dormant bank and building society accounts to be distributed to social projects, while protecting customers' rights to reclaim their money.

On 1 November 2009, the FSA introduced its Banking Conduct Regime for retail banking. The main constituents of the new regime are: (i) extending the FSA'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 FSA's Banking: Conduct of Business Sourcebook, which applies to deposit-taking in respects not covered by the PSR.

On 1 November 2009, the British Bankers' Association, the Building Societies Association and the UK Cards Association launched The Lending Code, a voluntary code on unsecured lending to personal and small business customers, which is monitored and enforced by the Lending Standards Board. The voluntary Banking Code and the Business Banking Code then ceased to have effect.

EXCHANGE CONTROLS AND OTHER LIMITATIONS AFFECTING COVERED BONDHOLDERS

Subject to the withholding tax requirements set out under the section entitled "*UK Taxation*", there are currently no UK laws, decrees or regulations that would affect the payment of interest or other payments to holders of notes who are neither residents of, nor trading in, the United Kingdom. For further discussion, see the section entitled "*UK Taxation*". There are also no restrictions under our memorandum and rules or under current UK laws that limit the right of non-resident or foreign owners to hold the notes or to vote, when entitled to do so.

THE ISSUER

Overview

We are a building society, incorporated in England and Wales under the UK Building Societies Act 1986, as amended, and regulated by the FSA, FSA Mutuals Public Register Number 355B. Our principal office is Nationwide House, Pipers Way, Swindon SN38 1NW (phone number +44 (0) 1793 513 513). We are the largest building society in the United Kingdom in terms of total assets. Our core business is providing personal financial services, including:

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

In addition, we maintain an investment portfolio of debt securities for our own account.

As at 4 April 2010, we held an estimated 10.6% of total UK residential mortgage balances. We are the third largest residential mortgage lender in the United Kingdom and the third largest UK savings provider. On 4 April 2010, we held an estimated 11.2% of the total UK retail savings balances and had total assets of £191.3 billion.

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

Profits on ordinary activities after tax for the year ended 4 April 2010 and the year ended 4 April 2009 were £264 million and £146 million, respectively. For the year ended 4 April 2010, 84.6% of our interest income before net (expense)/income on financial instruments hedging assets was attributable to the portfolio of secured loans (predominantly residential mortgage loans). By comparison, our only other major category of interest earning assets consists of investments managed primarily by our Treasury Division from which we earned approximately 15.4% of our interest income before net (expense)/income on financial instruments hedging assets for the year ended 4 April 2010.

History and Development

Building societies have existed in the United Kingdom for over 200 years. From the outset, they were community-based, cooperative organisations created to help people purchase homes. The main characteristic

of building societies is their mutual status, meaning that they are owned by their members, who are primarily retail savings customers and residential mortgage customers. Our origins go back to the Northampton Freehold Land Society, which was founded in 1848. Over time, this entity merged with similar organisations to create Nationwide Building Society.

Over the past 25 years, many building societies have merged with other building societies or, in some cases, 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 139 at the end of 1985 to 50 as at 1 June 2010. One consequence of this decrease is that the majority of our competitors are banks. We believe that our mutual status allows us to compete successfully with banks, and it is our strategy to remain a building society. At our annual general meeting in 1998, our members voted against a proposal to demutualise and no subsequent motion to demutualise has since been proposed at a general meeting of the Society. However, it is possible that another motion to demutualise could be proposed and voted upon at a future general meeting. For a discussion of the risks associated with a demutualisation, see the section entitled "*Risk Factors—Risks Related to Our Business—Demutualisation, mutual society transfer and consequences of the UK Building Societies Act may have an adverse impact on the holders of notes*."

In 1997, when many of our competitors that were building societies demutualised, we experienced a sharp increase in the number of new UK member retail savings accounts. We believe that many of these accounts were opened because customers expected us to demutualise and wanted to receive any associated windfall distributions. To prevent the disruption caused by speculative account opening, we have generally required all new members opening accounts with us since November 1997 to assign to charity any windfall benefits which they might otherwise have received as a result of a future demutualisation.

We have been involved in a number of mergers and acquisitions in recent years. We merged with Portman Building Society in August 2007, and with Derbyshire Building Society and Cheshire Building Society in December 2008. In March and June 2009 we also acquired selected assets and liabilities of Dunfermline Building Society . In addition, Nationwide opened its first branch in the Republic of Ireland in March 2009. We believe these developments have added value to Nationwide, improved our distribution footprint and helped to grow the membership and are a testament to the strength of Nationwide and our ability to provide support to other building societies.

Strategy

Our strategy remains largely unchanged from previous years as we believe it is a successful and sustainable strategy that provides us with the ability to adapt to changing market conditions.

In the short to medium-term, we intend to focus on a cash flow approach to balance sheet management and continue with our low risk approach. We intend to make a significant investment in our business to replace core systems and improve mortgage point of sale systems which we expect will help us become more efficient.

We are committed to remaining a building society because we believe that this is in the best long-term interests of our current and future members. Our core business is providing retail personal financial services. This includes residential mortgage lending, general retail banking services, personal investment products, insurance products and personal lending. We also engage in non-retail business activities, namely commercial lending and treasury operations to generate additional value for our members.

Our vision is to be the UK's leading mutual financial services provider. Our strategy has three core strands:

Financial Service Provider: Offer a broad range of financial services products;

Challenger Brand: Be a national player with the size, scale and distribution capability and brand to compete with banks, together with a reputation of leading customer service; and

Mutual Delivery Model: Provide long-term value to our membership through sustainable pricing and by adopting a low-risk appetite offering safety and security.

Our focus is on organic growth, but inorganic growth opportunities will be considered if they add value to members.

Strategic Focus

In addition to these broader strategic goals, we have adopted strategic plans that focus on defined medium-term objectives. The current such plan (which covers the years 2010/2011 to 2014/2015) is focused on the following objectives:

- Customers

  We intend to maintain a focus on customer satisfaction to ensure that our excellent customer service differentiates us from our banking competitors. We intend to also focus on delivering better long-term value to our customers. Our customer strategy seeks to deliver this long-term value via a cross-sales drive relationship strategy that rewards customers for the depth of their product holdings.

- Market Positioning

  We will seek to maintain our top-three position in our core markets of savings and mortgages, whilst looking to significantly grow our share of other retail personal financial services markets, including current accounts.

- Efficiency

  Our commercial drivers are the same as for public limited companies and we therefore need to be equally as efficient. Inefficiencies will dilute the benefits arising from our mutual status and ultimately could undermine the mutual model. We will focus on improving our sales performance and further income diversification as well as driving efficiency savings through operational change and technology improvements. We will focus on driving down our cost income ratio and delivering positive non-margin income growth at a rate greater than cost growth.

- Income

  We will seek to improve the diversity and quality of earnings and intend to target significant growth in non-margin income. This will be driven by greater contributions from current accounts, personal loans, credit cards, protection & investments and general insurance products.

- Capital and Liquidity

  We will seek to maintain a core tier 1 solvency ratio of at least 12% and intend to target optimal profits that would allow us to become self-sufficient in generating capital for ongoing organic expansion. We will seek to manage and maintain liquidity at an optimum level which will be determined as part of guidance received from the FSA about the quantity of our liquid asset buffer and funding profile (**Individual Liquidity Guidance**).

Lending

Our lending activities are primarily concentrated on residential mortgage lending in the United Kingdom. We also engage in a limited amount of commercial secured lending and secured and unsecured consumer lending.

UK Residential Mortgage Lending to Individuals

The vast majority of our lending portfolio consists of UK residential mortgage loans to individuals. Residential mortgage loans to individuals are secured on the residential property of the borrower on terms which allow for repossession and sale of the property if the borrower breaks the terms and conditions of the loan. Our policy is for all residential mortgage loans to individuals to be fully secured first priority loans on the mortgaged property, to ensure that our claim to the property, in the event of default, is senior to those of other potential creditors. As a result, our residential mortgage lending to individuals carries lower risk than many other types of lending.

As at 4 April 2010, we were the third largest mortgage lender in the United Kingdom (as measured by total lending outstanding). As at 4 April 2010, our total UK residential mortgage lending to individuals fully secured on residential property amounted to £127.3 billion (£129.9 billion as at 4 April 2009). During the year ended 4 April 2010, our gross new UK residential mortgage lending to individuals fully secured on residential property amounted to £10.3 billion, compared to £16.7 billion for the year ended 4 April 2009. Our residential mortgages are generally for terms of 25 years, although their typical life is between five and seven years after drawdown due to the high level of early redemptions, characteristic of the UK residential mortgage markets. We also make residential mortgage loans for rental purposes as described in the subsection entitled "*—Lending— Commercial Secured Lending*".

We have a national franchise within the United Kingdom, with a regional distribution of UK residential mortgage lending to individuals generally matching the regional Gross Domestic Product (**GDP**) distribution in the United Kingdom. Below is a table showing the geographical distribution of our UK residential mortgage loans as at 4 April 2010:

	% of UK residential mortgage lending to individuals as at 4 April 2010 Nationwide only	
Total Market		
Region		
South-east England (excluding London)	29%	26%
Central England	19%	16%
Northern England	17%	18%
Greater London	13%	19%
South-west England	9%	9%
Scotland	7%	6%
Wales and Northern Ireland	6%	6%
Total	100%	100%

(1) Source: CACI Limited

We offer fixed rate and tracker rate mortgages. These products establish a set rate or set methodology for determining a variable rate for a set term, after which the rate reverts to one of our two general variable rates. Our fixed-rate products currently offer a term of one, two, three, four or five years, but we have from time to time offered longer fixed terms, including 10 and 25 years. Our tracker rate products bear interest during the set term (currently two or three years) at a variable rate that is a fixed percentage above the Bank of England base rate. After the end of the set fixed rate or tracker period, the interest rate reverts to either our base mortgage rate (if the mortgage was originated on or before 29 April 2009) or our standard mortgage rate (if the mortgage was originated on or after 30 April 2009). Both our base mortgage rate and our standard

mortgage rate are variable rates set at our discretion, except that our base mortgage rate is guaranteed not to be more than 2% above the Bank of England base rate.

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

The following table sets forth the total residential mortgage loans to individuals by product type that we had outstanding as at 4 April 2010 as a percentage of our total residential mortgage loans to individuals.

	As at 4 April 2010
Mortgage Type	
Base mortgage rate	38%
Fixed rate	45%
Tracker rate	17%
Total	100%

An analysis of our gross advances on UK residential mortgage loans to individuals by product type over the year ended 4 April 2010 and the two financial years ended 4 April 2009 and 4 April 2008 is shown in the following table:

	For the year ended 4 April		
	2010	**2009**	**2008**
Mortgage Type			
Base mortgage rate	6%	8%	9%
Fixed rate	63%	57%	71%
Tracker rate	31%	35%	20%
Total	100%	100%	100%

We have adopted what we consider a prudent approach to lending throughout the year ended 4 April 2010 and our focus on quality has resulted in a controlled reduction in the overall volume of lending in the year ended 4 April 2010. The asset quality of our residential mortgage portfolio remains strong and we have continued to focus on affordability and loan to value ratios (LTV). As a result our arrears remain low and are below the UK industry average as shown in the following table, which shows the number of cases in arrears as a percentage of the mortgage book.

	Nationwide[(1)]	**UK Industry Average**[(2)]
Arrears		
3-6 months	0.39%	0.90%
6-12 months	0.27%	0.75%
Over 12 months	0.16%	0.57%

Notes:

(1) As at 4 April 2010.

(2) Source: Council of Mortgage Lenders' Market Briefing, March 2010.

We utilise an automated credit scoring system to assist in minimizing credit risk on residential mortgage lending. Our credit procedures for residential mortgage lending take into account the applicant's credit

history, loan-to-value criteria, income multiples and an affordability calculation, or shock test, that tests the applicant's ability to service the loan at higher interest rates. For additional information regarding how we manage credit risk in connection with new lending, see "*Financial Risk Management—Credit Risk*".

We focus our residential mortgage sales efforts on first-time buyers, subsequent purchasers moving home and the remortgage market. In current market conditions, we are particularly keen to support our existing members and have introduced products to support first-time buyers. First-time buyers offer a significant potential for additional sources of income through the distribution of insurance and personal investment products. During the year ended 4 April 2010, 26% of residential mortgage advances that we made were to first-time buyers and 74% to experienced buyers. This compares to the year ended 4 April 2009 when 16% of residential mortgage advances were to first-time buyers and 84% to experienced buyers.

In addition to residential mortgage loans, we offer further secured advances on existing mortgaged property to customers consistent with our lending criteria for new residential mortgage loans.

Specialist UK Residential Mortgage lending to Individuals

We offer specialist UK residential mortgage lending to individuals, which comprises lending to private landlords (buy to let), loans to prime borrowers who have self-certificated their income (self-certified) and other non-conforming lending.

As at 4 April 2010, our outstanding specialist UK residential mortgage lending to individuals was £18.7 billion. Specialist residential mortgages are made up of £15.7 billion of advances made through our specialist lending brands, The Mortgage Works (TMW) and UCB Home Loans (UCB), and £3.0 billion arising from the acquisitions of the Cheshire, Derbyshire and Dunfermline building societies portfolios. Our outstanding specialist lending loans were advanced primarily in the buy to let and self-certification markets. A breakdown of our specialist UK residential mortgage lending outstanding balances as at 4 April 2010 is shown in the table below:

	% of Specialist UK residential mortgage lending to individuals as at 4 April 2010
Buy to let	66%
Self-certified	24%
Other[(1)]	10%
Total	100%

Notes:

(1) Other includes £0.5 billion (3%) of sub-prime lending of which £0.4 billion was acquired as part of the mergers with Derbyshire and Cheshire and was subject to fair value assessment at acquisition.

The market slow down has prompted a planned reduction in our new business volumes in our specialist UK residential lending to individuals. During the year ended 4 April 2010, we took the decision not to aggressively expand our specialist lending market share and sought to maintain a selective approach in our chosen markets. We believe as a result of this approach, despite the withdrawal of many key competitors, we have maintained a stable market share of the core buy to let market. We have benefited from improving margins in this market.

Our specialist UK residential mortgage lending arrears remain well below or in line with comparable industry levels. Buy to let lending cases more than three months in arrears as at 4 April 2010 were 1.41% which compares favourably with the Council of Mortgage Lenders (CML) industry average of 1.81% at

September 2009. Self-certified lending cases more than three months in arrears were 3.95% as at 4 April 2010 (the CML no longer compiles an industry average for this sector).

Commercial Secured Lending

We engage in commercial secured lending, which as at 4 April 2010 accounted for 14.6% of our total loan assets. To maintain a prudent balance between our asset classes, we currently have a 20% cap on commercial lending as a percentage of our total lending (book balances). We intend to maintain a low risk exposure to commercial secured lending and to maintain the existing level of credit quality throughout our commercial secured portfolio.

Our commercial loan portfolio consists of loans made to UK Registered Social Landlords secured on residential property, other loans secured on real property, loans that we extend to entities that raise capital for government sanctioned projects such as schools, hospitals and roads under the UK Private Finance Initiative legislation, and assets acquired from Derbyshire, Cheshire and Dunfermline building societies. The amount of these types of loans as at 4 April 2010 was as follows:

	As at 4 April 2010	
	£ billions	% of total commercial loans
Commercial Secured Loans		
Loans to UK Registered Social Landlords[(1)]	7.1	32%
Other commercial loans secured on real property[(1)]	12.5	56%
Loans extended under the Private Finance Initiative legislation	1.3	6%
Assets acquired from Derbyshire, Cheshire and Dunfermline building societies	1.3	6%
Total	22.2	100%

Note:

(1) For reporting purposes, some of these advances are included within residential mortgage loans. See note 19 (*Loans and advances to customers*) to our audited consolidated financial statements incorporated by reference herein.

Commercial loans made to UK Registered Social Landlords differ significantly from other loans secured on real property. UK Registered Social Landlords provide affordable housing supported by government grants. This portfolio historically has carried a lower risk than our other commercial lending activities, and there are currently no arrears of three months or more in our Registered Social Landlord portfolio. To date we have not needed to raise any loss provisions against this portfolio. We are the largest lender to UK Registered Social Landlords by amount of assets lent.

Other commercial loans secured on real property consist of loans:

- to individuals or corporations to support investment in commercial properties mainly for retail, office or industrial use; and
- to investors in residential housing.

Consumer Banking

We engage in personal banking, which accounted for 1.5% of our total loan assets as at 4 April 2010.

Unsecured Consumer Banking

Unsecured consumer banking consists of loans that we make to individuals that are not secured on real or personal property. We offer three different forms of unsecured consumer lending:

- personal unsecured loans, which totalled £1,417 million as at 4 April 2010;
- credit card lending, which totalled £901 million as at 4 April 2010; and
- current accounts with overdraft facilities, which totalled £258 million actual amount outstanding as at 4 April 2010.

There is a greater risk of loss on unsecured consumer lending than there is on residential mortgage lending because we have no security if the borrower defaults on the loan. Accordingly, unsecured consumer lending products bear higher interest rates than our residential mortgage products. To manage this risk, we use an automated credit scoring system that is designed to evaluate a borrower's ability to repay the loan. In addition, we impose a maximum limit on the size of unsecured consumer loans and encourage customers to take out payment protection insurance.

For information regarding our credit card and overdraft facilities, see the subsections entitled "*—Other Banking Services—Credit Cards*" and "*—Other Banking Services—Current Accounts*".

Secured Consumer Lending

We offer personal loans secured on residential property, which as at 4 April 2010 totalled £14 million.

Retail Funding

The great majority of our retail funding is in the form of UK retail member deposits. In addition, we accept offshore deposits and deposits which do not convey member status. As at 4 April 2009 we had UK retail member deposits of £128.3 billion, which decreased to £120.9 billion as at 4 April 2010. UK retail member deposits represented 63.2% of our total liabilities and reserves as at 4 April 2010.

We provide a wide range of retail savings products that may be repayable on demand or notice and which may pay a variable or fixed rate of interest. On most retail savings products, we determine variable interest rates at our discretion according to market conditions. Generally, the more restrictions on withdrawal of retail savings, the higher the rate of interest. Balances on all of our notice deposit accounts are, by their terms, withdrawable on demand but, in some cases, subject to loss of interest. As at 4 April 2010, approximately 58% of our UK retail member deposits comprised variable rate savings products, while approximately 42% comprised fixed rate saving products.

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

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

Other Banking Services

Current Accounts

Our current account, called FlexAccount, is our checking and day-to-day transactional product. As at 4 April 2010, there were approximately 4.4 million FlexAccounts with £7.1 billion of credit balances and £258 million of overdrawn balances. Holders of FlexAccounts may be eligible for ATM cards, check books, overdraft facilities, check guarantee cards and debit cards depending upon the account holder's credit score and the performance of the account. The overdraft facility connected to the current account charges interest at one rate for authorised overdrafts and at a higher rate for unauthorised overdrafts.

Credit Cards

We began issuing Nationwide-branded Visa credit cards to our customers in 1997 and had approximately 1.3 million active credit card accounts as at 4 April 2010. We market and process credit card applications ourselves (using our credit scoring system), and an outside contractor is responsible for billing and customer service functions. Our credit card holders receive differing credit limits, depending on their credit score. We do not charge customers an annual fee for using the credit card.

Despite recent economic events our credit card asset quality remains strong. On a consistent basis with the industry, our percentage of credit card balances more than 30 days in arrears is 5.15% as at 4 April 2010 compared with the industry average of 6.64% at the same date. Asset quality is monitored constantly both for new and existing exposures.

Offshore Savings

We offer offshore savings through our Isle of Man subsidiary, Nationwide International Limited, to give us access to another funding source. Nationwide International Limited offers demand and notice accounts in sterling, US dollars and Euros mainly to offshore investors. As at 4 April 2010, Nationwide International Limited had deposits of £4,117 million.

Other Banking Services

We also provide our customers with foreign currency exchange and equity dealing services. We act as an agent in providing these services and assume no foreign exchange or equity price risk as a result of this activity.

Personal Investment Products

Prior to the sale of our subsidiaries, Nationwide Life Limited and Nationwide Unit Trust Managers to Legal & General on 31 January 2008, we provided our customers with a range of personal investment products, including:

- unit trusts;
- pension contracts;
- guaranteed equity bonds; and
- equity individual savings accounts.

Under the terms of the sale agreement, we sell Legal & General products via our team of 2,000 advisers and consultants. We believe that this arrangement provides an excellent opportunity for our members to choose

from a broader range of competitively priced products from one of the UK's top financial services companies and enjoy an enhanced service.

As at 4 April 2010, our range of unit trust investment products held by our customers had a market value of approximately £3.7 billion.

Treasury Operations

Our Treasury Division centrally manages our liquid asset portfolios as well as most of our financial risk exposures, and raises funds on the money and debt capital markets.

The Treasury Division manages risk exposures, including market risk, by making use of derivative instruments such as swaps, futures and options, which reduce our exposure to changes in interest rates and currency rates. See the sections entitled "*Financial Risk Management*" and "*Management's Discussion and Analysis of Financial Condition and Results of Operations— Overview*" for further details of risk management.

We maintain two liquid asset portfolios, one for regulatory liquidity purposes and one for investment yield:

- our regulatory liquidity asset portfolio totalled £25.7 billion as at 4 April 2010 (compared to £31.1 billion as at 4 April 2009). These investments cover a wide range of currencies, maturities and instruments to meet regulatory requirements and internal liquidity limits; and

- our portfolio of investment securities is made up of corporate bonds and asset-backed securities. The portfolio had a fair value of £3.7 billion as at 4 April 2010 (compared to £3.4 billion as at 4 April 2009) with 87% of its assets rated A or better. In light of current market conditions we have not actively sought to expand the portfolio and we manage the existing portfolio to minimise potential risk.

We have credit default swaps (CDS) in place to cover the credit risk on £88 million (4 April 2009: £153 million of principal) of assets within the available for sale (**AFS**) portfolio as at 4 April 2010. All the CDS have been undertaken with an AA rated European financial institution.

We raise funds from the money and debt capital markets, accepting time deposits and issuing certificates of deposit, commercial paper and medium-term notes. Funding from wholesale markets decreased to £49.3 billion as at 4 April 2010 from £53.7 billion as at 4 April 2009, representing a wholesale funding ratio of 27.8% (compared to 28.6% as at 4 April 2009).

We aim to achieve a diversified mix of wholesale funding by currency, investor category and maturity to prevent dependence on any particular funding sector. We have a variety of programs in place so that we can meet our short-term and long-term funding needs, including:

- Euro certificate of deposit and commercial paper programme;

- US commercial paper programme;

- Canadian commercial paper programme;

- French commercial paper programme;

- Euro medium-term note programme;

- US medium-term note programme;

- Covered Bond programme; and

- Australian medium-term note and commercial paper programme.

We do not operate a trading portfolio. It is our policy not to invest in emerging markets and we only have minimal exposure to non-investment grade debt.

Insurance

In conjunction with our core business of providing residential mortgage loans and retail savings, we develop and market insurance products branded with our name that are underwritten by third-party insurers. We sold our subsidiary Nationwide Life Limited to Legal & General on 31 January 2008, and as a result we no longer underwrite our own life assurance products. As part of our agreement, we distribute insurance products of Legal & General. We also have entered into a new strategic distribution agreement for the supply of motor and travel insurance with Liverpool Victoria to provide our customers with a broader range of competitively priced products from one of the UK's top financial services companies.

Products Underwritten by Third Parties

The insurance products that we market are:

- buildings and contents insurance, which we market to our residential mortgage customers and non-mortgage customers;

- payment protection products, covering loan repayments in case of sickness, unemployment or disability;

- travel insurance;

- term income protection insurance, replacing up to 60% of gross income in case of unemployment;

- motor insurance; and

- personal accident insurance.

We typically use leading insurers as third-party underwriters for these insurance products. We receive a commission and, in some cases, participate in the profits, but not the losses, from third-party underwritten insurance products that we market. This provides us with an important source of non-interest income, and in the financial year ended 4 April 2010 and the year ended 4 April 2009 we earned £124 million and £124 million, respectively, from commissions and profit sharing. We generally market our insurance products to new and existing customers, and it is our policy to offer insurance products at competitive prices and with more comprehensive coverage than those products generally offered by our main competitors.

Distribution Network

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

We distribute our products primarily through:

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

Branches

Our branch network continues to be a major source of our mortgage lending and retail funding. As of 4 April 2010 we had 844 branches of Nationwide Building Society in the United Kingdom and the Isle of Man. We believe that our branch network is an integral part of our distribution network and we expect to maintain its current size.

Our goal is to utilise our branch network efficiently. To allow customers to execute automated transactions, we have installed ATMs in nearly all of our branches supplemented in a number of branches with personal computers dedicated for customers' use to access our internet banking facilities. This has freed our branch employees from simple, time consuming tasks, enabling them to focus on more complex transactions and concentrate on selling our products and maintaining customer service. All of our branches market our residential mortgage, retail savings, personal lending, personal investment and insurance products. We are continuing the £300 million, six-year investment programme announced in 2004 to develop a modern business and to ensure that our branch, telephone, internet and other access channels are maintained at the high standards expected by our members.

ATMs

We had 2,472 ATMs at 31 March 2010, including some placed in retail stores, railroad stations, gas stations and other remote locations. In addition, our customers also have access to around 63,000 ATMs in the United Kingdom through the LINK and Cirrus networks and to approximately 1,000,000 ATMs world-wide through the VISA network.

Call Centres

Our telephone call centres are open 24 hours a day to service customers and receive calls from potential customers that are interested in our products. In addition, we use telemarketing to supplement our mortgage, insurance and personal loan marketing.

Mail

We offer mail-based savings accounts and, as at 4 April 2010 our main mail-based accounts, InvestDirect and 60 Day Direct had balances of £4.9 billion. Mail-based savings accounts provide members with higher interest rates on their deposits in return for limiting them to transactions by mail, online banking and ATMs. We also use direct mail to market some of our products.

E-commerce

We launched an internet banking service in 1997. Our website allows customers to transact on their accounts and apply for a broad range of our products online.

Agents

Agents are third parties that we appoint to market our products and perform retail transactions. We had 173 appointed agents as at 4 April 2010. Agents are typically intermediary financial advisers or real estate agents and increase our retail distribution network. We remunerate agents for the transactions and sales they perform.

Intermediaries

A substantial amount of our mortgage sales are introduced to us by third-party intermediaries. Distribution through third-party intermediaries accounted for approximately 58% of our new residential mortgage lending in the financial year ended 4 April 2010. Intermediaries range from large UK insurance companies to small independent mortgage advisers. We remunerate intermediaries for introducing mortgage business.

Employees

For the financial year ended 4 April 2010, we employed, on average, 18,530 full and part-time employees. Set out below are our average number of employees during the financial years ended 4 April 2010, 2009 and 2008, respectively:

Average number of employees	**For the financial year ended 4 April**		
	2010	**2009**	**2008**
Full-time	13,247	13,409	12,784
Part-time	5,283	5,526	5,534
Total	18,530	18,935	18,318

Approximately 73% of our employees are currently members of the Nationwide Group Staff Union. We are party to a collective bargaining agreement with the Nationwide Group Staff Union and believe that our relationship with our employees is good. We have never experienced any work stoppages.

Principal Subsidiaries

Our interests in our principal subsidiary undertakings, all of which are consolidated, as at 4 April 2010 are set out below:

100% held subsidiary undertakings	Nature of business
First Nationwide	Investment company
Moulton Finance Overseas BV	Investment company
Nationwide International Limited(1)	Offshore deposit taker
Nationwide Investments (No.1) Limited	Investment company
Nationwide Syndications Limited	Syndicated lending
Nationwide Trust Limited	Consumer finance
The Mortgage Works Limited	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.

All the above subsidiary undertakings are limited liability companies except First Nationwide which is an unlimited liability company with share capital.

All of the above companies are registered in England and Wales and operate in the UK except for Nationwide International Limited, which is registered and operates in the Isle of Man, and Moulton Finance Overseas BV, which is registered and operates in the Netherlands.

Nationwide has interests in a number of entities which give rise to the risks and rewards that are in substance no different from if they were subsidiary undertakings. As a consequence, these entities are consolidated in our accounts.

The interests of Nationwide in these principal entities as at 4 April 2010 are set out below:

Other Nationwide Group undertakings	Nature of business	Country of registration	Country of operation
Nationwide Covered Bonds LLP	Mortgage acquisition and guarantor of covered bonds	England and Wales	UK
Silverstone Master Issuer plc	Funding vehicle	England and Wales	UK
Pride No. 1 LLP	Funding vehicle	England and Wales	UK

Properties

The net book value of our property interests as at 4 April 2010 consisted of the following:

	Freehold	Leasehold over 50 years	Other leasehold	Total
		(£ millions)		
Type of Property				
Branches and non-specialised buildings	253	10	16	279
Head office/administration centres	86	-	-	86
Residential property for rental	9	-	-	9
Total	348	10	16	374

Bank Charges

On 27 July 2007 following agreement between the UK Office of Fair Trading (OFT) and a number of UK financial institutions, the OFT issued High Court legal proceedings against those institutions, including Nationwide Building Society, to determine the legal status and enforceability of certain of the charges applied to their personal current account customers in relation to requests for unauthorised overdrafts.

The High Court's original judgment that the charges were assessable for fairness was appealed by the financial institutions to the Court of Appeal. The judgment of the Court of Appeal upheld the original decision of the High Court. A further appeal by the financial institutions to the Supreme Court (formerly the House of Lords) was heard and a judgment delivered on 25 November 2009. The Supreme Court ruled that unauthorised overdraft charges are not assessable for fairness on the basis of costs. This meant that the test case between the OFT and the financial institutions, including the Society, came to an end. The decision cannot be appealed any further. On 22 December 2009 the OFT, after detailed consideration of the judgment and the various options available to it, concluded against taking forward any investigation under the Unfair Terms in Consumer Contract Regulations 1999.

The Society continues to assert that its charges are fair and transparent, and that, given the legal circumstances outlined above, there is no longer a contingent liability relating to this matter.

Financial Services Compensation Scheme

Like other UK financial institutions, we pay levies based on our share of protected deposits to the FSCS to meet claims against it. In 2008 and 2009 a number of institutions were declared in default by the FSA. The FSCS has met the claims by way of loans received from H.M. Treasury. The terms of these loans are 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.

The FSCS may have a further liability if there are insufficient funds available from the realisation of the assets of the financial institutions to fully repay the H.M. Treasury loans. To the extent that the loans have not been repaid in full by 2012, the FSCS will agree a schedule of repayments with H.M. Treasury. The FSCS will then levy the industry (including Nationwide) accordingly.

In the year ended 4 April 2009, the Nationwide Group held a provision for £258 million, being the Nationwide Group's estimated share of the levies which it would incur in respect of the period of the initial three year loan facility from H.M. Treasury. At that time, the Nationwide Group did not provide for its estimated share of potential compensation costs because these could not be reliably estimated.

The amount provided by the Nationwide Group as at 4 April 2010 of £93 million has been restricted to the latest estimates of its share of levies in respect of scheme years ending on and before 31 March 2011, for which our liability to scheme levies is already confirmed. The change, together with a significant reduction in the provision due principally to interest rates being lower than previously anticipated, resulted in a release of £117 million in funds previously held as a provision and aligns our approach with emerging industry consensus.

As further information is provided by the FSCS the Nationwide Group will continue to update its estimate of the amount of FSCS levies it will ultimately be required to pay.

THE LLP

Introduction

The LLP was incorporated in England and Wales on 25 June 2005 as a limited liability partnership (registered number 313878) with limited liability under the LLPA 2000 by Nationwide and the Liquidation Member as its Members. The principal place of business of the LLP is at Nationwide House, Pipers Way, Swindon SN38 1NW (telephone number: +44(0) 1604 853910). The LLP has no subsidiaries.

Principal Activities

The principal objects of the LLP are set out in the LLP Deed and include, *inter alia*, the ability to carry on the business of acquiring the Loans and their Related Security pursuant to the terms of the Mortgage Sale Agreement with a view to profit and to do all such things as are incidental or conducive to the carrying on of that business and to borrow money.

The LLP has not engaged since its incorporation, and will not engage whilst the Covered Bonds or any Term Advance remains outstanding, in any material activities other than activities incidental to its incorporation under the LLPA 2000, activities contemplated under the Transaction Documents to which it is or will be a party, obtaining a standard licence under the Consumer Credit Act 1974, filing a notification under the Data Protection Act 1998 and other matters which are incidental or ancillary to the foregoing.

Members

The members of the LLP as at the date of this Base Prospectus are and their principal offices are:

Name	Principal Office
Nationwide	Nationwide House Pipers Way Swindon SN38 1NW United Kingdom
Liquidation Member	c/o Wilmington Trust SP Services (London) Limited Fifth Floor, 6 Broad Street Place London EC2M 7JH

The LLP has no employees.

Directors of the Members

The following table sets out the directors of the Liquidation Member and their respective business addresses and occupations.

Name	Business Address	Business Occupation
Mark Howard Filer	Fifth Floor, 6 Broad Street Place, London, EC2M 7JH	Company Director
Jean-Christophe Schroeder	Fifth Floor, 6 Broad Street Place, London, EC2M 7JH	Company Director
Wilmington Trust SP Services (London) Limited	Fifth Floor, 6 Broad Street Place, London, EC2M 7JH	

The directors of Nationwide and their respective business addresses are set out under "*Management – Directors*" on pages 206 to 208 above.

No potential conflicts of interest exist between any duties to the LLP of the Directors of the Members, as described above, and their private interests or other duties in respect of their management roles.

Directors of the Corporate Director of the LLP (Wilmington Trust SP Services (London) Limited)

Name	Business Address	Business Occupation
John Merrill Beeson	Fifth Floor, 6 Broad Street Place, London, EC2M 7JH	Company Director
William James Farrell II	Fifth Floor, 6 Broad Street Place, London, EC2M 7JH	Company Director
Mark Howard Filer	Fifth Floor, 6 Broad Street Place, London, EC2M 7JH	Company Director
Martin McDermott	Fifth Floor, 6 Broad Street Place, London, EC2M 7JH	Company Director
Nicolas Patch	Fifth Floor, 6 Broad Street Place, London, EC2M 7JH	Company Director
Jean-Christophe Schroeder	Fifth Floor, 6 Broad Street Place, London, EC2M 7JH	Company Director

The financial statements of the LLP for the year ended 4 April 2009 have been audited by the LLP's auditors and have been prepared in accordance with generally accepted accounting principles under IFRS.

The LLP's audited accounts for the year ended 4 April 2009 are incorporated by reference in this Base Prospectus.

SUMMARY OF THE PRINCIPAL DOCUMENTS

Trust Deed

The Trust Deed, made between the Issuer, the LLP, the Bond Trustee and the Security Trustee, is the principal agreement governing the Covered Bonds. The Trust Deed contains provisions relating to, *inter alia*:

- the constitution of the Covered Bonds and the terms and conditions of the Covered Bonds (as more fully set out under Terms and Conditions of the Covered Bonds above);
- the covenants of the Issuer and the LLP;
- the terms of the Covered Bond Guarantee (as described below);
- the enforcement procedures relating to the Covered Bonds and the Covered Bond Guarantee; and
- the appointment, powers and responsibilities of the Bond Trustee and the circumstances in which the Bond Trustee may resign or retire or be removed.

Covered Bond Guarantee

Under the terms of the Covered Bond Guarantee, if the Issuer defaults in the payment on the due date of any moneys due and payable under or pursuant to the Trust Deed or the Covered Bonds or any Receipts or Coupons, if any other Issuer Event of Default occurs (other than by reason of non-payment) or if an LLP Event of Default occurs, the LLP has agreed (subject as described below) to pay or procure to be paid (following service of an Issuer Acceleration Notice and Notice to Pay or, if applicable, an LLP Acceleration Notice) unconditionally and irrevocably to or to the order of the Bond Trustee (for the benefit of the holders of the Covered Bonds), an amount equal to that portion of the Guaranteed Amounts which shall become Due for Payment but would otherwise be unpaid, as of any Original Due for Payment Date or, if applicable, Extended Due for Payment Date, by the Issuer. Under the Covered Bond Guarantee, the Guaranteed Amounts will become due and payable on any earlier date on which an LLP Acceleration Notice is served.

Following the occurrence of an Issuer Event of Default and after the Covered Bonds have been declared due and payable by the Bond Trustee as against the Issuer, following service of an Issuer Acceleration Notice, the Bond Trustee will serve a Notice to Pay on the LLP. Payment by the LLP of the Guaranteed Amounts pursuant to the Covered Bond Guarantee will be made on the later of (a) the day which is two Business Days following service of a Notice to Pay on the LLP or (b) the day on which the Guaranteed Amounts are otherwise Due for Payment.

All payments of Guaranteed Amounts by or on behalf of the LLP will be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or other governmental charges of whatever nature, unless the withholding or deduction of such taxes, assessments or other governmental charges are required by law or regulation or administrative practice of the United Kingdom or any political subdivision thereof or any authority therein or thereof having the power to tax. If any such withholding or deduction is required, the LLP will pay the Guaranteed Amounts net of such withholding or deduction and shall account to the appropriate tax authority for the amount required to be withheld or deducted. The LLP will not be obliged to pay any amount to the Bond Trustee or any holder of Covered Bonds in respect of the amount of such withholding or deduction.

Under the terms of the Covered Bond Guarantee, the LLP agrees that its obligations under the Covered Bond Guarantee shall be as principal debtor and not merely as surety and shall be absolute and unconditional, irrespective of, and unaffected by, any invalidity, irregularity or unenforceability of, or defect in, any

provisions of the Trust Deed or the Covered Bonds or Receipts or Coupons or the absence of any action to enforce the same or the waiver, modification or consent by the Bond Trustee or any of the holders of the Covered Bonds, Receiptholders or Couponholders in respect of any provisions of the same or the obtaining of any judgment or decree against the Issuer or any action to enforce the same or any other circumstances which might otherwise constitute a legal or equitable discharge or defence of a guarantor.

Subject to the grace period specified in Condition 9.2 (LLP Events of Default) of the Conditions, failure by the LLP to pay the Guaranteed Amounts when Due for Payment will result in an LLP Event of Default.

The Trust Deed provides that the Excess Proceeds shall be paid by the Bond Trustee on behalf of the holders of the Covered Bonds of the relevant Series to the LLP for its own account, as soon as practicable, and shall be held by the LLP in the GIC Account and the Excess Proceeds shall thereafter form part of the Security and shall be used by the LLP in the same manner as all other moneys from time to time standing to the credit of the GIC Account. Any Excess Proceeds received by the Bond Trustee shall discharge *pro tanto* the obligations of the Issuer in respect of the Covered Bonds, Receipts and Coupons. However, the obligations of the LLP under the Covered Bond Guarantee are (following service of an Issuer Acceleration Notice and Notice to Pay or, if earlier, service of an LLP Acceleration Notice) unconditional and irrevocable and the receipt by the Bond Trustee of any Excess Proceeds shall not reduce or discharge any of such obligations.

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

The Trust Deed is governed by English law.

Intercompany Loan Agreement

On each Issue Date, the Issuer will use the proceeds of the Covered Bonds issued under the Programme to lend on that date an amount equal to the Principal Amount Outstanding on the Issue Date of the issue of the related Covered Bonds to the LLP by way of a Term Advance pursuant to the Intercompany Loan Agreement. Each Term Advance will be made in the Specified Currency of the relevant Series or Tranche, as applicable, of the Covered Bonds, as set out in the applicable Final Terms, and will be swapped into Sterling pursuant to the relevant Covered Bond Swap Agreement. The Sterling Equivalent of each Term Advance will be used by the LLP (a) as consideration in part for the acquisition of Loans and their Related Security from the Seller pursuant to the terms of the Mortgage Sale Agreement, as described under – "*Mortgage Sale Agreement – Sale by the Seller of Loans and Related Security*" and/or (b) to invest in Substitution Assets in an amount not exceeding the prescribed limit to the extent required to meet the requirements of Regulations 17(2)(b) and 24(1)(a)(ii) of the RCB Regulations and the Asset Coverage Test and thereafter may be applied by the LLP: (i) as consideration in part for the acquisition of Loans and their Related Security from the Seller pursuant to the terms of the Mortgage Sale Agreement, as described under – "*Mortgage Sale Agreement – Sale by the Seller of Loans and Related Security*"; and/or (ii) to invest in Substitution Assets in an amount not exceeding the prescribed limit; and/or (iii) (subject to satisfying the Asset Coverage Test), to make a Capital Distribution to a Member; and or (iv) if an existing Series, or part of an existing Series, of Covered Bonds is being refinanced by such issue of Covered Bonds, to repay the Term Advance(s) corresponding to the Covered Bonds being so refinanced; and/or (v) to make a deposit in the GIC Account (including, without limitation, to fund the Reserve Fund to an amount not exceeding the prescribed limit). Each Term Advance will bear interest at a rate of interest equal to the rate of interest payable on the corresponding Series or Tranche, as applicable, of Covered Bonds.

The Issuer will not be relying on repayment of any Term Advance in order to meet its repayment obligations under the Covered Bonds. The LLP will pay amounts due in respect of Term Advances(s) in accordance with the relevant Priorities of Payments. Prior to the service of an Asset Coverage Test Breach Notice (which has not been revoked) or a Notice to Pay on the LLP, amounts due in respect of each Term Advance will be paid by the LLP to, or as directed by, the Issuer on each Interest Payment Date, subject to paying all higher ranking amounts in the Pre-Acceleration Revenue Priority of Payments or, as applicable, the

Pre-Acceleration Principal Priority of Payments. The Issuer may use the proceeds of the Term Advances to pay amounts due on the Covered Bonds. However, any failure by the LLP to pay any amounts due on the Term Advances will not affect the liability of the Issuer to pay the relevant amount due on the Covered Bonds. For so long as an Asset Coverage Test Breach Notice is outstanding and has not been revoked, the LLP may not borrow any new Term Advances (and the Issuer may not make any new Term Advances) under the Intercompany Loan Agreement.

The amounts owed by the LLP to the Issuer under the Term Advances will be reduced by (a) any amounts paid by the LLP under the terms of the Covered Bond Guarantee to repay the Covered Bonds (the proceeds of which were originally applied to make such Term Advances) and (b) the Principal Amount Outstanding of any Covered Bonds (the proceeds of which were originally applied to make such Term Advances) purchased by the LLP and cancelled in accordance with Condition 6.9 (Cancellation).

The Intercompany Loan Agreement is governed by English law.

Mortgage Sale Agreement

The Seller

Loans and their Related Security will be sold to the LLP from time to time pursuant to the terms of the Mortgage Sale Agreement entered into on the Initial Programme Date as amended and restated on 30 April 2008, 1 December 2008 and 18 December 2009 between Nationwide (in its capacity as Seller), the LLP and the Security Trustee.

Sale by the Seller of Loans and Related Security

The Portfolio will consist of Loans and their Related Security sold from time to time by the Seller to the LLP in accordance with the terms of the Mortgage Sale Agreement. The types of Loans forming part of the Portfolio will vary over time provided that, at the time the relevant Loans are sold to the LLP, the Eligibility Criteria (as described below) in respect of such Loans are met on the relevant Transfer Date. Accordingly, the Portfolio may, at any time, include Loans with characteristics that were not being offered to Borrowers on previous Transfer Dates.

Prior to the occurrence of an Issuer Event of Default or an LLP Event of Default, the LLP will acquire Loans and their Related Security from the Seller in the three circumstances described below.

(a) First, in relation to the issue of Covered Bonds from time to time in accordance with the Programme, the Issuer will make Term Advances to the LLP, the proceeds of which may be applied in whole or in part by the LLP to acquire Loans and their Related Security from the Seller. In exchange for the sale of the Loans and their Related Security to the LLP, the Seller will receive an amount equal to the True Balance of those Loans sold by it as at the Transfer Date, which will be satisfied by a combination of:

    (i) a cash payment to be made by the LLP from the proceeds of the relevant Term Advance and/or from Available Principal Receipts; and/or

    (ii) the Seller being treated as having made a Capital Contribution in an amount equal to the difference between the True Balance of the Loans sold by the Seller as at the relevant Transfer Date and the cash payment (if any) made by the LLP; and

    (iii) Deferred Consideration.

(b) Second, prior to service of an Asset Coverage Test Breach Notice on the LLP (which has not been revoked), the LLP will use the Available Principal Receipts to acquire New Loans and their Related

Security from the Seller and/or Substitution Assets (in respect of any Substitution Assets, up to the prescribed limit) on each LLP Payment Date.

(c) Third, the LLP and the Seller are required to ensure that the Portfolio is maintained at all times in compliance with the Asset Coverage Test (as determined by the Cash Manager on each Calculation Date). If on any Calculation Date there is a breach of the Asset Coverage Test, the Seller will use all reasonable efforts to offer to sell sufficient New Loans and their Related Security to the LLP on or before the next Calculation Date in consideration of the Seller being treated as having made a Capital Contribution (in an amount equal to the True Balance of the New Loans) sold by the Seller as at the relevant Transfer Date and in consideration of the right to receive the Deferred Consideration.

If Selected Loans and their Related Security are sold by or on behalf of the LLP as described below under "*LLP Deed – Sale of Selected Loans and their Related Security following service of a Notice to Pay*", the obligations of the Seller insofar as they relate to those Selected Loans and their Related Security will cease to apply.

The Seller will also be required to repurchase Loans and their Related Security sold to the LLP in the circumstances described below under "*— Repurchase of Loans*".

Eligibility Criteria

The sale of Loans and their Related Security to the LLP will be subject to various conditions (the **Eligibility Criteria**) being satisfied on the relevant Transfer Date or in respect of Additional Loan Advances, on the next Calculation Date, including:

(a) no Issuer Event of Default or LLP Event of Default under the Transaction Documents shall have occurred which is continuing as at the relevant Transfer Date;

(b) the LLP, acting on the advice of the Cash Manager, is not aware, and could not reasonably be expected to be aware, that the purchase of the Loans and their Related Security would adversely affect the then current ratings by Moody's, S&P or Fitch of the Covered Bonds;

(c) the weighted average yield on the Loans in the Portfolio (including the New Loans) is at least 0.15% greater than LIBOR for one month Sterling deposits after taking into account (a) the average yield on the Loans and (b) the margins on the Interest Rate Swaps and (c) the average yield on any Substitution Assets held by the LLP;

(d) no Loan has a True Balance of more than £1,000,000;

(e) no Loan relates to a Property which is not a residential Property; and

(f) no Loan constitutes a New Loan Type, in respect of which no written confirmation has been received by the Security Trustee, from each of the Rating Agencies in accordance with the terms of the Mortgage Sale Agreement, that such Loan may be sold to the LLP.

On the relevant Transfer Date, the Representations and Warranties (described below in "*– Representations and Warranties*") will be given by the Seller in respect of the Loans and their Related Security sold by the Seller to the LLP.

If the Seller accepts an application from or makes an offer (which is accepted) to a Borrower for a Product Switch or Additional Loan Advance, then if the Eligibility Criteria referred to in paragraphs (c), (d) and (e) above relating to the Loan subject to that Product Switch or Additional Loan Advance are not satisfied on the next following Calculation Date, the LLP will be entitled to rectify the relevant breach of those Eligibility

Criteria by (in the event of a breach of the Eligibility Criteria in paragraphs (c), (d) and (e) above) requiring the Seller to repurchase the Loans subject to any Product Switch or Additional Loan Advance or (in the event of a breach of the Eligibility Criteria in paragraph (c) above) by requiring the Seller to transfer further Loans to the LLP in an amount sufficient to ensure that the Eligibility Criteria in paragraph (c) above is met.

Transfer of Title to the Loans to the LLP

The sale by the Seller to the LLP of English Loans and Northern Irish Loans and their Related Security will take effect by way of an equitable assignment. The sale by the Seller to the LLP of Scottish Loans and their Related Security will be given effect by way of Scottish Declarations of Trust under which the beneficial interest in the Scottish Loans and their Related Security will be transferred to the LLP. In relation to Scottish Loans, references in this document to a sale of Loans or to Loans having been sold are to be read as references to the making of such Scottish Declarations of Trust. Such beneficial interest (as opposed to the legal title) cannot be registered or recorded in the Registers of Scotland. As a result, legal title to Loans and their Related Security will remain with the Seller until legal assignments or assignations (as appropriate) are delivered by the Seller to the LLP and notice of the sale is given by the Seller to the Borrowers. Legal assignment or assignation (as appropriate) of the Loans and their Related Security (including, where appropriate, their registration or recording in the relevant property register) to the LLP will be deferred and will only take place in the limited circumstances described below.

Legal assignment or assignation (as appropriate) of the Loans and their Related Security (or, where specified, the Selected Loans and their Related Security) to the LLP will be completed on or before the 20th London Business Day after the earliest of the following:

(a) either (A) the occurrence of an Issuer Event of Default under Condition 9.1(a) to (g) and service on Nationwide of an Issuer Acceleration Notice and the service on the LLP of a Notice to Pay or (B) if the Bond Trustee has previously served on the Issuer an Issuer Acceleration Notice and served on the LLP a Notice to Pay in respect of an Issuer Event of Default under Condition 9.1(h), then the occurrence of any other Issuer Event of Default;

(b) a written direction is received by Nationwide from the FSA requiring the transfer of all of the engagements or the business of Nationwide to another entity in circumstances where the rights of borrowing members of Nationwide will cease (provided that, where approval of the transfer from the members of Nationwide is required by either the FSA or applicable law, such approval is obtained);

(c) in respect of Selected Loans only, at the request of the LLP following the acceptance of any offer to sell the Selected Loans and their Related Security to any person who is not the Seller;

(d) the Seller and/or the LLP being required (a) by law; (b) by an order of a court of competent jurisdiction; (c) by a regulatory authority which has jurisdiction over the Seller; or (d) by any organisation of which the Seller is a member, or whose members comprise, but are not necessarily limited to, mortgage lenders and with whose instructions it is customary for the Seller to comply, to perfect legal title to the Loans; and

(e) the Seller requesting a transfer by way of assignment or assignation (as appropriate) by giving notice in writing to the LLP and the Security Trustee.

Pending completion of the transfer, the right of the LLP to exercise the powers of the legal owner of, or (in Scotland) the heritable creditor under, the Mortgages will be secured by, or (in Scotland) supported by, an irrevocable power of attorney granted by the Seller in favour of the LLP and the Security Trustee.

Any Title Deeds and Loan Files relating to the Loans in the Portfolio will be held by or to the order of the Seller or the Servicer, as the case may be, or by solicitors, licensed conveyancers or (in Scotland) qualified conveyancers acting for the Seller in connection with the creation of the Loans and their Related Security.

The Seller or the Servicer, as the case may be, will undertake that all the Title Deeds and Loan Files relating to the Loans in the Portfolio which are at any time in their possession or under their control or held to their order will be held to the order of the Security Trustee or as the Security Trustee may direct.

Representations and warranties

None of the LLP, the Security Trustee or the Bond Trustee has made or has caused to be made on its behalf any enquiries, searches or investigations in respect of the Loans and their Related Security to be sold to the LLP. Instead, each is relying entirely on the Representations and Warranties by the Seller contained in the Mortgage Sale Agreement. The parties to the Mortgage Sale Agreement may, with the prior written consent of the Security Trustee (which shall be given if the Rating Agencies have confirmed it would not adversely affect the then current ratings of the Covered Bonds), amend the Representations and Warranties in the Mortgage Sale Agreement. The material Representations and Warranties are as follows and are given on the relevant Transfer Date in respect of the Loans and Related Security to be sold to the LLP only on that date and on the Calculation Date following the making of any Additional Loan Advance or Product Switch in respect of the Loan to which the Additional Loan Advance or Product Switch relates only:

- each Loan was originated or purchased by the Seller in the ordinary course of business not less than three calendar months prior to the relevant Transfer Date and was denominated in pounds Sterling upon origination or acquisition (or was denominated in euro upon origination or acquisition if the euro has been adopted as the lawful currency of the United Kingdom) and in respect of Loans purchased by the Seller (a) confirmation has been received from each of the Rating Agencies that the purchase of such Loans by the Seller would not adversely affect the then current ratings by Moody's, S&P or Fitch of the Covered Bonds, and (b) the amount of Loans purchased by the Seller does not exceed 20% of the Portfolio;

- the first two monthly payments due in respect of each Loan has been paid by the relevant Borrower;

- no Loan has a True Balance of more than £1,000,000;

- each Loan has a remaining term of less than 50 years as at the relevant Transfer Date;

- prior to the making of each advance under a Loan, the Lending Criteria and all preconditions to the making of any Loan were satisfied in all material respects subject only to exceptions and waivers as would be acceptable to a Reasonable, Prudent Mortgage Lender;

- the Lending Criteria are consistent with the criteria that would be used by a Reasonable, Prudent Mortgage Lender;

- all of the Borrowers are individuals and were aged 18 years or older at the date he or she executed the relevant Mortgage;

- subject to, in relation to a Right to Buy Loan, any charge or security which may arise or be granted in favour of the relevant local authority (or in Northern Ireland, the Northern Ireland Housing Executive) which has not been postponed, the whole of the True Balance on each Loan is secured by a Mortgage over residential property;

- subject to, in relation to a Right to Buy Loan, any charge or security which may arise or be granted in favour of the relevant local authority (or in Northern Ireland, the Northern Ireland Housing Executive) which has not been postponed, and subject to, in certain appropriate cases, the completion of an application for registration at the Land Registry, the Registers of Scotland or the Registers of Northern Ireland, each Mortgage constitutes a valid and subsisting first charge by way of legal mortgage or (in Scotland) first ranking standard security over the relevant Property or (in Northern Ireland) a valid and subsisting first charge (in relation to registered land) or a valid and

subsisting mortgage by way of demise or sub-demise (in relation to unregistered land) except in relation to Flexible Advances linked to Loans entered into before 1 September 2002 in which case the Mortgage constitutes a valid and subsisting second ranking charge by way of legal mortgage or (in Scotland) second ranking standard security over the relevant Property or in (in Northern Ireland) a valid and subsisting second charge (in relation to registered land) or a valid and subsisting mortgage by way of demise or sub-demise (in relation to unregistered land) behind the Mortgage securing the balance of the relevant Loan;

- the True Balance on each Loan and its Related Security constitute a legal, valid, binding and enforceable debt due to the Seller from the relevant Borrower and the terms of each Loan and its Related Security constitute valid and binding obligations of the Borrower enforceable in accordance with their terms except that enforceability may be limited by bankruptcy, insolvency or other similar laws of general applicability affecting the enforcement of creditors' rights generally and the court's discretion in relation to equitable remedies;

- none of the terms of the Loans or their Related Security are not binding by virtue of their being unfair pursuant to the Unfair Terms in Consumer Contracts Regulations 1994 or (as the case may be) the Unfair Terms in Consumer Contracts Regulations 1999;

- all approvals, consents and other steps necessary to permit a legal or equitable or beneficial transfer, or a transfer of servicing or other disposal as and in the manner contemplated by the Transaction Documents from the Seller to the LLP, of the Loans and their related Mortgages to be sold under the Mortgage Sale Agreement have been obtained or taken and there is no requirement in order for the transfer to be effective to obtain the consent of the Borrower before, on or after any equitable or beneficial transfer or before any legal transfer of the Loans and their related Mortgages and such transfer or disposal shall not give rise to any claim by the Borrower against the LLP, the Security Trustee or any of their successors in title or assigns;

- all of the Properties are located in England or Wales, Scotland or Northern Ireland;

- unless the Loan is a Loan Without Independent Valuation, not more than 12 months (or a longer period as may be acceptable to a Reasonable, Prudent Mortgage Lender) prior to the granting of each Mortgage, the Seller received a Valuation Report on the relevant Property (or another form of report concerning the valuation of the relevant Property as would be acceptable to a Reasonable, Prudent Mortgage Lender), the contents of which were such as would be acceptable to a Reasonable, Prudent Mortgage Lender;

- prior to the taking of each Mortgage (other than a remortgage), the Seller instructed its solicitor, licensed conveyancer or (in Scotland) qualified conveyancer to carry out an investigation of title to the relevant Property and to undertake other searches, investigations, enquiries and other actions on behalf of the Seller in accordance with the instructions which the Seller issued to the relevant solicitor, licensed conveyancer or (in Scotland) qualified conveyancer as are set out, in the case of English Loans, in the CML's Lenders' Handbook for England and Wales (or, for Mortgages taken before the CML's Lenders' Handbook for England and Wales was adopted in 1999, the Seller's standard form instructions to solicitors) and, in the case of Scottish Loans, the CML's Lenders' Handbook for Scotland (or, for Mortgages taken before the CML's Lenders' Handbook for Scotland was adopted in 2000, the Seller's standard form instructions to solicitors), the CML's Lender's Handbook for Northern Ireland (or, for Mortgages taken before the CML's Lender's Handbook for Northern Ireland was adopted in 2003, the Seller's standard form instructions to solicitors) or other comparable or successor instructions and/or guidelines as may for the time being be in place, subject only to those variations as would be acceptable to a Reasonable, Prudent Mortgage Lender;

- buildings insurance cover for each Property is available under either: (a) a policy arranged by the Borrower or (b) in the case of leasehold property a policy arranged by the relevant landlord or (c) the Properties in Possession Policies;

- subject to registration or recording at the Land Registry or the Registers of Scotland or the Registers of Northern Ireland (as the case may be), the Seller has good title to, and is the absolute unencumbered legal and beneficial owner of, all property, interests, rights and benefits in relation to the Loans and Related Security agreed to be sold and/or assigned by the Seller to the LLP under the Mortgage Sale Agreement;

- the Seller has, since the making of each Loan, kept or procured the keeping of full and proper accounts, books and records as are necessary to show all material transactions, payments, receipts, proceedings and notices relating to such Loan;

- there are no governmental authorisations, approvals, licences or consents required as appropriate for the Seller to enter into or to perform its obligations under the Mortgage Sale Agreement or to make the Mortgage Sale Agreement legal, valid, binding, enforceable and admissible in evidence in a court in England and Wales which have not been obtained;

- each Loan and its Related Security will be "eligible property" for the purposes of Regulation 2 of the RCB Regulations;

- the rate of interest under each Loan is charged in accordance with the Standard Documentation, subject to the terms of any offer letter in relation thereto; and

- each Property is owner-occupied, or, where a Property is not owner-occupied, a Rating Agency Confirmation has been received.

If New Loan Types are to be sold to the LLP, then the Representations and Warranties in the Mortgage Sale Agreement will be modified as required to accommodate these New Loan Types. The prior consent of the holders of the Covered Bonds to the requisite amendments will not be required to be obtained. Notwithstanding the foregoing, the above representations and warranties will not apply in their entirety to Flexible Advances.

Repurchase of Loans

If the Seller receives a Repurchase Notice from the Cash Manager identifying a Loan or its Related Security in the Portfolio which does not, as at the relevant Transfer Date or relevant Calculation Date (in the case of an Additional Loan Advance), materially comply with the Representations and Warranties set out in the Mortgage Sale Agreement, then the Seller will be required to repurchase (a) any such Loan and its Related Security and (b) any other Loans (including any Flexible Advances) of the relevant Borrower and their Related Security that are included in the Portfolio. The repurchase price payable upon the repurchase of any Loan is an amount (not less than zero) equal to the True Balance thereof and expenses as at the relevant repurchase date. The repurchase proceeds received by the LLP will be applied (other than Accrued Interest and Arrears of Interest) in accordance with the Pre-Acceleration Principal Priority of Payments (see "*Cashflows*" below).

In addition to the foregoing circumstances, the Seller will also be required to repurchase a Loan or Loans and its or their Related Security sold by the Seller to the LLP where:

(a) an Additional Loan Advance made in respect of a Loan results in certain Eligibility Criteria being breached;

(b) a Product Switch occurs. In these circumstances, the Seller will be able to offer to sell the affected Loan back to the LLP; or

(c) a proposed Product Switch or Additional Loan Advance would result in the LLP being required to be regulated by the FSA by reason of it entering into a regulated mortgage contract. In these circumstances, if the Seller or the Borrower accepts an offer for the Product Switch, the Servicer or administrator (as the case may be) will notify the LLP and the Seller will be required to repurchase the affected Loan or Additional Loan Advance before the Product Switch takes place.

Defaulted Loans

If a Seller receives a Defaulted Loans Notice identifying any Defaulted Loan, then that Defaulted Loan will be attributed a reduced weighting in the calculation of the Asset Coverage Test and the Amortisation Test as at the relevant Calculation Date. In addition, the Seller may, at its option, repurchase a Defaulted Loan for an amount equal to its True Balance as at the date of repurchase.

General ability to repurchase

Prior to the occurrence of an Issuer Event of Default, the Seller may from time to time offer to repurchase a Loan and its Related Security from the LLP for a purchase price of not less than the aggregate True Balance of the relevant Loan. The LLP may accept such offer at its discretion.

Right of Pre-emption

Under the terms of the Mortgage Sale Agreement, the Seller has a right of pre-emption in respect of any sale, in whole or in part, of Selected Loans and their Related Security.

The LLP will serve on the Seller a Selected Loan Offer Notice offering to sell those Selected Loans and their Related Security for an offer price equal to the greater of the then True Balance of the Selected Loans and the Adjusted Required Redemption Amount, subject to the offer being accepted by the Seller within ten London Business Days. If an Issuer Event of Default has occurred but no liquidator or administrator has been appointed to the Seller, the Seller's right to accept the offer (and therefore its right of pre-emption) will be conditional upon the delivery by the Seller of a solvency certificate to the LLP and the Security Trustee. If the Seller rejects the LLP's offer or fails to accept it in accordance with the foregoing, the LLP will offer to sell the Selected Loans and their Related Security to other Purchasers (as described under "— *LLP Deed – Method of Sale of Selected Loans*", below).

If the Seller validly accepts the LLP's offer to sell the Selected Loans and their Related Security, the LLP will, within three London Business Days of such acceptance, serve a Selected Loan Repurchase Notice on the Seller. The Seller will sign and return a duplicate copy of the Selected Loan Repurchase Notice and will repurchase from the LLP free from the Security created by and pursuant to the Deed of Charge the relevant Selected Loans and their Related Security (and any other Loan secured or intended to be secured by that Related Security or any part of it) referred to in the relevant Selected Loan Repurchase Notice. Completion of the purchase of the Selected Loans and their Related Security by the Seller will take place on the LLP Payment Date after receipt of the Selected Loans Repurchase Notice(s) or such date as the LLP may direct in the Selected Loans Repurchase Notice (provided that such date is not later than the earlier to occur of the date which is (a) ten London Business Days after returning the Selected Loan Repurchase Notice to the LLP and (b) the Final Maturity Date of, as applicable, the Hard Bullet Covered Bonds or the Earliest Maturing Covered Bonds).

For the purposes hereof:

Required Redemption Amount means, in respect of a Series of Covered Bonds, the amount calculated as follows:

the Principal Amount Outstanding of the relevant Series of Covered Bonds	X	(1+ Negative Carry Factor X (days to maturity of the relevant Series of Covered Bonds/365))

Further drawings under Loans

The Seller is solely responsible for funding all Additional Loan Advances and interest payments which would have been made by Borrowers but for Payment Holidays in respect of Loans sold by the Seller to the LLP, if any. The amount of the Seller's Capital Contribution will increase by the amount of the funded Additional Loan Advances and interest payments which would have been made by Borrowers but for Payment Holidays as set out in the LLP Deed.

New Sellers

In the future, any New Seller that wishes to sell loans and their Related Security to the LLP will accede to, *inter alia*, the Mortgage Sale Agreement. The sale of New Loans and their Related Security by New Sellers to the LLP will be subject to certain conditions, including the following:

- each New Seller accedes to the terms of the LLP Deed as Member (with such subsequent amendments as may be agreed by the parties thereto) so that it has, in relation to those New Loans and their Related Security to be sold by the relevant New Seller, substantially the same rights and obligations as the Seller had in relation to those Loans and their Related Security comprised in the Initial Portfolio under the LLP Deed;

- each New Seller accedes to the terms of the Mortgage Sale Agreement (with such subsequent amendments as may be agreed by the parties thereto) or enters into a new mortgage sale agreement with the LLP and the Security Trustee, in each case so that it has, in relation to those New Loans and their Related Security to be sold by the relevant New Seller, substantially the same rights and obligations as the Seller had in relation to those Loans and their Related Security comprised in the Initial Portfolio under the Mortgage Sale Agreement;

- each New Seller accedes to the Programme Agreement and enters into such other documents as may be required by the Security Trustee and/or the LLP (acting reasonably) to give effect to the addition of a New Seller to the transactions contemplated under the Programme;

- any New Loans and their Related Security sold by a New Seller to the LLP comply with the Eligibility Criteria set out in the Mortgage Sale Agreement;

- either the Servicer services the New Loans and their Related Security sold by a New Seller on the terms set out in the Servicing Agreement (with such subsequent amendments as may be agreed by the parties thereto) or the New Seller (or its nominee) enters into a servicing agreement with the LLP and the Security Trustee which sets out the servicing obligations of the New Seller (or its nominee) in relation to the New Loans and their Related Security and which is on terms substantially similar to the terms set out in the Servicing Agreement (fees payable to the Servicer or the New Seller (or its nominee) acting as servicer of such New Loans and their Related Security would be determined on the date of the accession of the New Seller to the Programme);

- the Security Trustee is satisfied that any accession of a New Seller to the Programme will not prejudice the Asset Coverage Test; and

- the Security Trustee is satisfied that the accession of a New Seller to the Programme is not materially prejudicial to holders of the Covered Bonds and has received a Rating Agency Confirmation in relation thereto.

If the above conditions are met, the consent of holders of the Covered Bonds will not be obtained to the accession of a New Seller to the Programme.

The Mortgage Sale Agreement is governed by English law (other than certain aspects relating to the Scottish Loans and their Related Security and Northern Irish Loans and their Related Security, which are governed by Scots law and Northern Irish law respectively).

Servicing Agreement

Pursuant to the terms of the Servicing Agreement entered into on the Initial Programme Date as amended and restated on 30 April 2008 between the LLP, Nationwide (in its capacity as Servicer) and the Security Trustee, the Servicer has agreed to service on behalf of the LLP the Loans and their Related Security sold by the Seller to the LLP.

The Servicer is required to service the Loans in accordance with the Servicing Agreement and:

(a) as if the Loans and their Related Security sold by the Seller to the LLP had not been sold to the LLP but remained with the Seller; and

(b) in accordance with the Seller's administration, arrears and enforcement policies and procedures forming part of the Servicer's policy from time to time as they apply to those Loans.

The Servicer's actions in servicing the Loans in accordance with its procedures are binding on the LLP and the Secured Creditors.

The Servicer has the power to exercise the rights, powers and discretions and to perform the duties of the LLP in relation to the Loans and their Related Security that it is servicing pursuant to the terms of the Servicing Agreement, and to do anything which it reasonably considers necessary or convenient or incidental to the administration of those Loans and their Related Security.

Undertakings of the Servicer

Pursuant to the terms of the Servicing Agreement, the Servicer has undertaken in relation to those Loans and their Related Security that it is servicing, *inter alia*, to:

- keep records and accounts on behalf of the LLP in relation to the Loans;
- keep the Loan Files and Title Deeds in its possession or under its control in safe custody and maintain records necessary to enforce each Mortgage and to provide the LLP and the Security Trustee with access to the Title Deeds and other records relating to the servicing of the Loans and their Related Security;
- maintain a register in respect of the Portfolio;
- make available to the LLP and the Security Trustee a report on a monthly basis containing information about the Loans and their Related Security comprised in the Portfolio;
- with effect on and from the date on which the Issuer is admitted to the register of issuers pursuant to Regulation 14 of the RCB Regulations, provide to the FSA such information about the Loans and

their Related Security contained in the Portfolio and/or such other information as the FSA may direct pursuant to the RCB Regulations;

- assist the Cash Manager in the preparation of a monthly asset coverage report in accordance with the Cash Management Agreement;

- take all reasonable steps to recover all sums due to the LLP, including instituting proceedings and enforcing any relevant Loan or Mortgage using the discretion of a Reasonable, Prudent Mortgage Lender in applying the enforcement procedures forming part of the Seller's policy; and

- enforce any Loan which is in default in accordance with the Seller's enforcement procedures or, to the extent that such enforcement procedures are not applicable having regard to the nature of the default in question, with the usual procedures undertaken by a Reasonable, Prudent Mortgage Lender on behalf of the LLP.

The Servicer undertakes that in the event of the Issuer being assigned a short term rating of A-2 or lower by S&P, F-2 or lower by Fitch and P-2 or lower by Moody's, then it shall redirect any direct debits from Borrowers into accounts controlled by it in respect of Loans to a designated account held with the Stand-by Account Bank. The Servicer also undertakes that, on the Servicer ceasing to be assigned a long-term unsecured, unguaranteed and unsubordinated debt obligation rating by Moody's of at least Baa3 or by S&P of at least BBB- or by Fitch of at least BBB-, it will use reasonable efforts to enter into a new or a master servicing agreement (in such form as the LLP and the Security Trustee shall reasonably require) with a third party within 60 days under which such third party will undertake the servicing obligations in relation to the Portfolio.

Setting of Standard Variable Rate and other discretionary rates and margins

Pursuant to the terms of the Mortgage Sale Agreement and in accordance with Mortgage Conditions applicable to certain of the Loans, the Seller has prescribed policies relating to interest rate setting, arrears management and handling of complaints which the LLP (and any subsequent purchaser thereof) will be required to adhere to following the transfer of Loans and their Related Security. Such arrears management and handling of complaints policies are consistent with those to be applied by the Servicer under the terms of the Servicing Agreement. The interest rate setting policy specified in the Mortgage Sale Agreement is only applicable to Loans with interest rates which may be varied from time to time in the discretion of the lender and requires that such interest rates should be set:

(a) where the borrower has been guaranteed it will be capped by reference to a certain level at, either above or below, the Bank of England base rate (or any other rate) at the time (such rate being the **SVR Capped Rate**), at no more than the SVR Capped Rate; and

(b) in accordance with any applicable requirements, statement of good practice or guidelines of the OFT, FSA or any other regulatory body with which it is customary to comply.

In addition to the undertakings described above, the Servicer has also undertaken in the Servicing Agreement to determine and set in relation to all the Loans in the Portfolio the Standard Variable Rate and any other discretionary rates and margins (in accordance with the policy to be adhered to by the LLP above) except in the limited circumstances described below in this sub-section when the LLP will be entitled to do so. The Servicer will not at any time prior to service of a Notice to Pay on the LLP and/or the transfer of legal title to the Portfolio (or any part thereof) to the LLP, without the prior consent of the LLP, set or maintain:

(i) the Standard Variable Rate applicable to the Loans sold by the Seller to the LLP and in the Portfolio at a rate which is higher than (although it may be lower than or equal to) the then prevailing Standard Variable Rate of the Seller which applies to mortgage loans beneficially owned by the Seller outside the Portfolio; and

(ii) any other discretionary rate or margin in respect of any other Loan sold by the Seller to the LLP and in the Portfolio which is higher than (although it may be lower than or equal to) the interest rate or margin which applies to that type of mortgage loan beneficially owned by the Seller outside the Portfolio.

In particular, the Servicer shall determine on each Calculation Date, having regard to:

(a) the income which the LLP would expect to receive during the next succeeding LLP Payment Period (the **Relevant LLP Payment Period**);

(b) the Standard Variable Rate and any other discretionary rate or margin in respect of the Loans which the Servicer proposes to set under the Servicing Agreement for the Relevant LLP Payment Period; and

(c) the other resources available to the LLP including the Interest Rate Swap Agreement, the relevant Covered Bond Swap Agreements and the Reserve Fund,

whether the LLP would receive an amount of income during the Relevant LLP Payment Period which, when aggregated with the funds otherwise available to it, is less than the amount which is the aggregate of (i) the amount of interest which would be payable (or provisioned to be paid) under the Intercompany Loan or, if a Notice to Pay has been served, the Covered Bond Guarantee on each LLP Payment Date falling at the end of the Relevant LLP Payment Period and relevant amounts payable (or provisioned to be paid) to the Covered Bond Swap Providers under the Covered Bond Swap Agreements in respect of all Covered Bonds on each LLP Payment Date of each Series of Covered Bonds falling at the end of the relevant LLP Payment Period and (ii) the other senior expenses payable by the LLP ranking in priority thereto in accordance with the relevant Priority of Payments applicable prior to an LLP Event of Default and/or the commencement of winding-up proceedings against the LLP and/or realisation of the Security.

If the Servicer determines that there will be a shortfall in the foregoing amounts, it will give written notice to the LLP and the Security Trustee, within one Business Day, of the amount of the shortfall. If the LLP or the Security Trustee notifies the Servicer and the Seller that, having regard to the obligations of the LLP and the amount of the shortfall, further Loans and their Related Security should be sold by the Seller to the LLP pursuant to the Mortgage Sale Agreement, the Seller will use all reasonable efforts to offer to sell New Loans and their Related Security to the LLP on or before the next Calculation Date which have a Standard Variable Rate and/or other discretionary rates or margins sufficient to avoid such shortfall on future Calculation Dates. In consideration of such sale, the Seller will be treated as having made a Capital Contribution (in an amount equal to the True Balance of the New Loans) sold by the Seller as at the relevant Transfer Date and will be entitled to receive the Deferred Consideration.

In addition, the Servicer shall determine on each Calculation Date following an Issuer Event of Default, having regard to the aggregate of:

(a) the Standard Variable Rate and any other discretionary rate or margin in respect of the Loans which the Servicer proposes to set under the Servicing Agreement for the relevant LLP Payment Period; and

(b) the other resources available to the LLP under the Interest Rate Swap Agreement,

whether the LLP would receive an aggregate amount of interest on the Loans and amounts under the Interest Rate Swap Agreement during the Relevant LLP Payment Period which would give a yield on the Loans of at least LIBOR plus 0.15%.

If the Servicer determines that the Yield Shortfall Test will not be met, it will give written notice to the LLP and the Security Trustee, within one Business Day, of the amount of the shortfall and the Standard Variable

Rate and the other discretionary rates or margins which would, in the Servicer's opinion, need to be set in order for no shortfall to arise, and the Yield Shortfall Test to be met, having regard to the date(s) on which the change to the Standard Variable Rate and the other discretionary rates or margins would take effect and at all times acting in accordance with the standards of a Reasonable, Prudent Mortgage Lender. If the LLP or the Security Trustee notifies the Servicer that, having regard to the obligations of the LLP, the Standard Variable Rate and/or the other discretionary rates or margins should be increased, the Servicer or replacement Servicer, as the case may be, will take all steps which are necessary to increase the Standard Variable Rate and/or any other discretionary rates or margins including publishing any notice which is required in accordance with the Mortgage Terms.

The LLP and the Security Trustee may terminate the authority of the Servicer to determine and set the Standard Variable Rate and any other variable rates or margins on the occurrence of a Servicer Event of Default as defined under "*—Removal or resignation of the Servicer*", in which case the LLP and the Security Trustee will agree to appoint the replacement Servicer to set the Standard Variable Rate and the other discretionary rates or margins itself in accordance with this sub-section.

Remuneration

As full remuneration for its servicing duties and activities and as reimbursement for any expense incurred by it in connection therewith, the Servicer or any substitute servicer which is a member of the Nationwide Group is entitled to receive the fee from the LLP as set out in Servicing Agreement. If, however, a servicer is appointed from outside the Nationwide Group, the level of this fee may be amended.

Removal or resignation of the Servicer

The LLP and the Security Trustee may, upon written notice to the Servicer, terminate the Servicer's rights and obligations immediately if any of the following events (each a **Servicer Termination Event** and, each of the first three events set out below, a **Servicer Event of Default**) occurs:

- the Servicer defaults in the payment of any amount due to the LLP under the Servicing Agreement and fails to remedy that default for a period of three Business Days after becoming aware of the default;

- the Servicer fails to comply with any of its other obligations under the Servicing Agreement which failure in the opinion of the Security Trustee is materially prejudicial to holders of the Covered Bonds and does not remedy that failure within 20 Business Days after becoming aware of the failure;

- an Insolvency Event occurs in relation to the Servicer; or

- the LLP resolves that the appointment of the Servicer should be terminated.

Subject to the fulfilment of a number of conditions, the Servicer may voluntarily resign by giving not less than 12 months' notice to the Security Trustee and the LLP provided that a substitute servicer qualified to act as such under the FSMA 2000 and with a management team with experience of administering mortgages in the United Kingdom has been appointed and enters into a servicing agreement with the LLP substantially on the same terms as the Servicing Agreement. The resignation of the Servicer is conditional on the resignation having no adverse effect on the then current ratings of the Covered Bonds unless the holders of the Covered Bonds agree otherwise by Extraordinary Resolution.

If the appointment of the Servicer is terminated, the Servicer must deliver the Title Deeds and Loan Files relating to the Loans administered by it to, or at the direction of, the LLP. The Servicing Agreement will terminate at such time as the LLP has no further interest in any of the Loans or their Related Security sold to the LLP and serviced under the Servicing Agreement that have been comprised in the Portfolio.

The Servicer may subcontract or delegate the performance of its duties under the Servicing Agreement provided that it meets conditions as set out in the Servicing Agreement.

Neither the Bond Trustee nor the Security Trustee is obliged to act as servicer in any circumstances.

The Servicing Agreement is governed by English law and will be made by way of deed.

Asset Monitor Agreement

Under the terms of the Asset Monitor Agreement entered into on the Initial Programme Date between the Asset Monitor, the LLP, the Cash Manager and the Security Trustee, the Asset Monitor has agreed, subject to due receipt of the information to be provided by the Cash Manager to the Asset Monitor, to report on the arithmetic accuracy of the calculations performed by the Cash Manager on the latest Calculation Date that falls at least 30 days prior to the anniversary of the Programme Date with a view to confirmation of compliance by the LLP with the Asset Coverage Test or the Amortisation Test, as applicable, on that Calculation Date.

If the long-term ratings of the Cash Manager or the Issuer fall below BBB-/Baa3/BBB- (by S&P, Moody's or Fitch, respectively), or if an Asset Coverage Test Breach Notice has been served and has not been revoked, the Asset Monitor will, subject to receipt of the relevant information from the Cash Manager, be required to report on such arithmetic accuracy following each Calculation Date and, following a determination by the Asset Monitor of any errors in the calculations performed by the Cash Manager such that the Asset Coverage Test has been failed on the applicable Calculation Date (where the Cash Manager had recorded it as being satisfied) or the Adjusted Aggregate Loan Amount or the Amortisation Test Aggregate Loan Amount is mis-stated by an amount exceeding 1% of the Adjusted Aggregate Loan Amount or the Amortisation Test Aggregate Loan Amount, as applicable, (as at the date of the relevant Asset Coverage Test or the relevant Amortisation Test), the Asset Monitor will be required to conduct such tests following each Calculation Date for a period of six months thereafter.

The Asset Monitor is entitled, in the absence of manifest error, to assume that all information provided to it by the Cash Manager for the purpose of reporting on the arithmetic accuracy is true and correct and not misleading, and is not required to report as such or otherwise take steps to verify the accuracy of any such information. The Asset Monitor Report will be delivered to the Cash Manager, the LLP, the Issuer, the Bond Trustee and the Security Trustee.

As at the Initial Programme Date, the LLP will pay to the Asset Monitor a fee of up to £5,000 per report (exclusive of VAT) for the reports to be performed by the Asset Monitor.

The LLP may, at any time, only with the prior written consent of the Security Trustee, terminate the appointment of the Asset Monitor by giving at least 60 days' prior written notice to the Asset Monitor, and the Asset Monitor may, at any time, resign by giving at least 60 days' prior written notice to the LLP and the Security Trustee (such replacement to be approved by the Security Trustee (such approval to be given if the replacement is an accountancy firm of national standing) which agrees to perform the duties (or substantially similar duties) of the Asset Monitor set out in the Asset Monitor Agreement).

Upon giving notice of resignation, the Asset Monitor shall immediately use its best endeavours to appoint a replacement (such replacement to be approved by the Security Trustee) which agrees to perform the duties of the Asset Monitor set out in the Asset Monitor Agreement. If a replacement is not appointed by the date which is 30 days prior to the date when tests are to be carried out in accordance with the terms of the Asset Monitor Agreement, then the LLP shall use all reasonable endeavours to appoint an accountancy firm of national standing to carry out the relevant tests on a one-off basis, provided that such appointment is approved by the Security Trustee.

Neither the Bond Trustee nor the Security Trustee will be obliged to act as Asset Monitor in any circumstances.

The Asset Monitor Agreement is governed by English law.

LLP Deed

The Members of the LLP have agreed to operate the business of the LLP in accordance with the terms of a limited liability partnership deed entered into on the Initial Programme Date as amended and restated on 21 February 2007, 30 November 2007, 30 April 2008, 19 June 2008, 3 July 2009 and 18 December 2009 (such limited liability partnership deed as amended and/or supplemented and/or restated from time to time, the **LLP Deed**) between the LLP, Nationwide, the Liquidation Member, the Bond Trustee and the Security Trustee.

Members

As at the date of this Base Prospectus, each of Nationwide and the Liquidation Member is a member (each a **Member**, and together with any other members from time to time, the **Members**) of the LLP. Nationwide and the Liquidation Member are designated members (each a **Designated Member**, and together with any other designated members from time to time, the **Designated Members**) of the LLP. The Designated Members shall have such duties as are specified in the LLPA 2000 or otherwise at law and in the LLP Deed. The LLP Deed requires that there will at all times be at least two Designated Members of the LLP.

For so long as Covered Bonds are outstanding, if an administrator or a liquidator is appointed to Nationwide, the Seller will automatically cease to be a Member of the LLP and the outstanding balance of the Seller's Capital Contribution to the LLP will be converted into a subordinated debt obligation (the **Issuer Subordinated Loan**). In these circumstances, the Liquidation Member (with the prior written consent of the Security Trustee whilst the Covered Bonds are outstanding) may, by written notice to the LLP, appoint another Member as a Designated Member or may, at its sole discretion (acting on behalf of itself and the other Members), admit a New Member to the LLP (in each case with the prior written consent of the Security Trustee).

No New Member may be otherwise appointed without the consent of the Security Trustee and the receipt by the Issuer or the Security Trustee of a Rating Agency Confirmation.

Capital Contributions

From time to time Nationwide (in its capacity as a Member) will make Capital Contributions to the LLP. Capital Contributions may be made in cash or in kind (e.g. through a contribution of Loans to the LLP). The Capital Contributions of Nationwide shall be calculated in Sterling on each Calculation Date as the difference between (a) the True Balance of the Portfolio as at the last day of the preceding Calculation Period plus Principal Receipts standing to the credit of the GIC Account plus the principal amount of Substitution Assets and Authorised Investments as at the last day of the preceding Calculation Period and (b) the Sterling Equivalent of the aggregate Principal Amount Outstanding under the Covered Bonds as at the last day of the preceding Calculation Period.

The Liquidation Member will not make any Capital Contributions to the LLP.

Capital Contributions or returns on Capital Contributions shall only be paid to Members after the LLP has paid or, as applicable, provided for all higher ranking amounts in the relevant Priority of Payments.

Asset Coverage Test

Under the terms of the LLP Deed, the LLP and the Members (other than the Liquidation Member) must ensure that on each Calculation Date, the Adjusted Aggregate Loan Amount is in an amount at least equal to the Sterling Equivalent of the aggregate Principal Amount Outstanding of the Covered Bonds as calculated on the relevant Calculation Date.

If on any Calculation Date, the Adjusted Aggregate Loan Amount is less than the aggregate Principal Amount Outstanding of all Covered Bonds as calculated on the relevant Calculation Date, then the LLP (or the Cash Manager on its behalf) will notify the Members, the Bond Trustee and the Security Trustee thereof and the Members (other than the Liquidation Member) will use all reasonable endeavours to sell sufficient further Loans and their Related Security to the LLP in accordance with the Mortgage Sale Agreement (see "*Summary of the Principal Documents – Mortgage Sale Agreement – Sale by the Seller of Loans and Related Security*") or provide Cash Capital Contributions to ensure that the Asset Coverage Test is met on the next following Calculation Date. If the Adjusted Aggregate Loan Amount is less than the aggregate Principal Amount Outstanding of all Covered Bonds on the next following Calculation Date, the Asset Coverage Test will be breached and the Bond Trustee will serve an Asset Coverage Test Breach Notice on the LLP and the LLP shall send notice of the same to the FSA pursuant to the RCB Regulations. The Bond Trustee shall revoke an Asset Coverage Test Breach Notice if, on any Calculation Date falling on or prior to the third Calculation Date following the service of an Asset Coverage Test Breach Notice the Asset Coverage Test is subsequently satisfied and neither a Notice to Pay nor an LLP Acceleration Notice has been served.

Following service of an Asset Coverage Test Breach Notice (which has not been revoked):

(a) the LLP will be required to sell Selected Loans (as described further under "*LLP Deed – Sale of Selected Loans and Related Security following service of an Asset Coverage Test Breach Notice*");

(b) prior to the occurrence of an Issuer Event of Default and service of an Issuer Acceleration Notice or, if earlier, the occurrence of an LLP Event of Default and service of an LLP Acceleration Notice, the Pre-Acceleration Revenue Priority of Payments and the Pre- Acceleration Principal Priority of Payments will be modified as more particularly described in "*Cashflows–Allocation and distribution of Available Revenue Receipts and Available Principal Receipts following service of an Asset Coverage Test Breach Notice*" below; and

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

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

For the purposes hereof:

Adjusted Aggregate Loan Amount means the amount calculated on each Calculation Date as follows:

$$A + B + C + D + E - (X + Y + Z)$$

where,

A = the lower of (i) and (ii), where:

(i) = the sum of the **Adjusted True Balance** of each Loan in the Portfolio, which shall be the lower of (A) the actual True Balance of the relevant Loan in the Portfolio as calculated on the relevant Calculation Date and (B) the Indexed Valuation relating to that Loan multiplied by M (where for all Loans that are less than three months in arrears or not in arrears, M = 0.75, for all Loans that are three months or more in arrears and have a True Balance to Indexed Valuation ratio of less than or equal to 75%, M = 0.40 and for all Loans that are three months or more in arrears and have a True Balance to Indexed Valuation ratio of more than to 75%, M = 0.25),

minus

the aggregate sum of the following deemed reductions to the aggregate Adjusted True Balance of the Loans in the Portfolio if any of the following occurred during the previous Calculation Period:

(i) a Loan or its Related Security was, in the immediately preceding Calculation Period, in breach of the Representations and Warranties contained in the Mortgage Sale Agreement or subject to any other obligation of the Seller to repurchase the relevant Loan and its Related Security, and in each case the Seller has not repurchased the Loan or Loans of the relevant Borrower and its or their Related Security to the extent required by the terms of the Mortgage Sale Agreement. In this event, the aggregate Adjusted True Balance of the Loans in the Portfolio (as calculated on the relevant Calculation Date) will be deemed to be reduced by an amount equal to the Adjusted True Balance of the relevant Loan or Loans (as calculated on the relevant Calculation Date) of the relevant Borrower; and/or

(ii) the Seller, in any preceding Calculation Period, was in breach of any other material warranty under the Mortgage Sale Agreement and/or the Servicer was, in any preceding Calculation Period, in breach of a material term of the Servicing Agreement. In this event, the aggregate Adjusted True Balance of the Loans in the Portfolio (as calculated on the relevant Calculation Date) will be deemed to be reduced by an amount equal to the resulting financial loss incurred by the LLP in the immediately preceding Calculation Period (such financial loss to be calculated by the Cash Manager without double counting and to be reduced by any amount paid (in cash or in kind) to the LLP by the Seller to indemnify the LLP for such financial loss);

AND

(ii) = the aggregate **Arrears Adjusted True Balance** of the Loans in the Portfolio as at the relevant Calculation Date which in relation to each Loan shall be the lower of (A) the actual True Balance of the relevant Loan as calculated on the relevant Calculation Date and (B) the Indexed Valuation relating to that Loan multiplied by N (where for all Loans that are less than three months in arrears or not in arrears, N = 1, for all Loans that are three months or more in arrears and have a True Balance to Indexed Valuation ratio of less than or equal to 75%, N = 0.40 and for all Loans that are three months or more in arrears and have a True Balance to Indexed Valuation ratio of more than 75%, N = 0.25);

minus

the aggregate sum of the following deemed reductions to the aggregate Arrears Adjusted True Balance of the Loans in the Portfolio if any of the following occurred during the previous Calculation Period:

(i) a Loan or its Related Security was, in the immediately preceding Calculation Period, in breach of the Representations and Warranties contained in the Mortgage Sale Agreement or subject to any other obligation of the Seller to repurchase the relevant Loan and its Related Security, and in each case the Seller has not repurchased the Loan or Loans of the relevant Borrower and its or their Related Security to the extent required by the terms of the Mortgage Sale Agreement. In this event, the aggregate Arrears Adjusted True Balance of the Loans in the Portfolio (as calculated on the relevant Calculation Date) will be deemed to be reduced by an amount equal to the Arrears Adjusted True Balance of the relevant Loan or Loans (as calculated on the relevant Calculation Date) of the relevant Borrower; and/or

(ii) the Seller, in any preceding Calculation Period, was in breach of any other material warranty under the Mortgage Sale Agreement and/or the Servicer was, in the immediately preceding Calculation Period, in breach of a material term of the Servicing Agreement. In this event, the aggregate Arrears Adjusted True Balance of the Loans in the Portfolio (as calculated on the relevant Calculation Date) will be deemed to be reduced by an amount equal to the resulting financial loss incurred by the LLP in the immediately preceding Calculation Period (such financial loss to be calculated by the Cash Manager without double counting and to be reduced by any amount paid (in cash or in kind) to the LLP by the Seller to indemnify the LLP for such financial loss),

the result of the calculation in this paragraph (ii)) being multiplied by the Asset Percentage (as defined below);

B = the aggregate amount of any Principal Receipts on the Loans in the Portfolio up to the end of the immediately preceding Calculation Period (as recorded in the Principal Ledger) which have not been applied as at the relevant Calculation Date to acquire further Loans and their Related Security or otherwise applied in accordance with the LLP Deed and/or the other Transaction Documents;

C = the aggregate amount of any Cash Capital Contributions made by the Members (as recorded in the Capital Account Ledger of each Member) or proceeds of Term Advances which have not been applied as at the relevant Calculation Date to acquire further Loans and their Related Security or otherwise applied in accordance with this Deed and/or the other Transaction Documents;

D = the aggregate outstanding principal balance of any Substitution Assets;

E = the amount of any Sale Proceeds standing to the credit of the GIC Account and credited to the Pre-Maturity Liquidity Ledger as at the relevant Calculation Date;

X = 4% of the aggregate True Balance of the Loans in the Portfolio, as calculated on the relevant Calculation Date (which such percentage shall (a) be subject to annual review unless the short-term rating of the Seller falls below F-1 from Fitch and P-1 from Moody's in which case such review shall be quarterly and (b) not in any case be less than 4%);

Y = 8% multiplied by the Flexible Redraw Capacity (as defined below) multiplied by 3; and

Z = the weighted average remaining maturity of all Covered Bonds then outstanding ***multiplied by*** the Sterling Equivalent of the aggregate Principal Amount Outstanding of the Covered Bonds ***multiplied by*** the Negative Carry Factor where the **Negative Carry Factor** (a) 0.5% if the weighted average margin of the interest rate payable on the Covered Bonds is less or equal to 0.1% per annum or (b) 0.5% plus that margin minus 0.1%, if that margin is greater

than 0.1% per annum (provided that if the weighted average remaining maturity is less than one, the weighted average shall be deemed, for the purposes of this calculation, to be one).

Asset Percentage means 93% or such lesser percentage figure as selected at the option of the LLP by the LLP (or the Cash Manager acting on its behalf) that is necessary to ensure that the Covered Bonds maintain the then current ratings assigned to them by Fitch and S&P or such figure selected by the LLP (or the Cash Manager on its behalf) and notified to Moody's and the Security Trustee.

Save where a different adjustment would not adversely affect the then current ratings of all outstanding Covered Bonds as confirmed in writing by the Rating Agencies, the Asset Percentage will be adjusted in accordance with the various methodologies prescribed by Fitch and S&P to ensure that sufficient credit enhancement will be maintained, provided that the Asset Percentage may not, at any time, exceed 93% unless where a different adjustment would not adversely affect the then current ratings of all outstanding Covered Bonds as confirmed in writing by the Rating Agencies.

In addition, the LLP or the Cash Manager acting on its behalf may, from time to time, send notification to Moody's and the Security Trustee of the percentage figure selected by it, being the difference between 100% and the amount of credit enhancement required to ensure that the Covered Bonds achieve an Aaa rating by Moody's using Moody's expected loss methodology.

Flexible Re-draw Capacity means the sum of (a) the flexible cash re-draw capacity, being an amount equal to the difference between (i) the maximum amount of Cash Re-draws that Borrowers may make under Flexible Loans in the Portfolio (whether or not drawn) as at the last day of the immediately preceding Calculation Period and (ii) the aggregate True Balance of Cash Re-draws which form part of the Portfolio as at the last day of the immediately preceding Calculation Period; and (b) the further draw capacity being an amount equal to the difference between (i) the aggregate credit limit under Flexible Advances included in the Portfolio as at the last day of the immediately preceding Calculation Period and (ii) the aggregate True Balance of Flexible Advances which form part of the Portfolio as at the last date of the immediately preceding Calculation Period.

Amortisation Test

The LLP and the Members (other than the Liquidation Member) must ensure that on each Calculation Date following service of a Notice to Pay on the LLP (but prior to service of an LLP Acceleration Notice and/or the commencement of winding-up proceedings against the LLP and/or realisation of the Security) the Amortisation Test Aggregate Loan Amount will be in an amount at least equal to the Sterling Equivalent of the aggregate Principal Amount Outstanding of the Covered Bonds as calculated on the relevant Calculation Date.

Following service of Notice to Pay on the LLP, if on any Calculation Date the Amortisation Test Aggregate Loan Amount is less than the Sterling Equivalent of the aggregate Principal Amount Outstanding of the Covered Bonds as calculated on the relevant Calculation Date, then the Amortisation Test will be deemed to be breached and an LLP Event of Default will occur. The LLP or the Cash Manager, as the case may be, will immediately notify the Members, the Security Trustee and (whilst Covered Bonds are outstanding) the Bond Trustee of any breach of the Amortisation Test and the Bond Trustee shall be entitled to serve an LLP Acceleration Notice in accordance with the Conditions.

The **Amortisation Test Aggregate Loan Amount** will be calculated on each Calculation Date as follows:

$$A + B + C - Z$$

where,

A = the aggregate **Amortisation Test True Balance** of each Loan, which shall be the lower of (a) the actual True Balance of the relevant Loan as calculated on the relevant Calculation Date multiplied by M and (b) 100% of the Indexed Valuation multiplied by M.

Where for all the Loans that are less than three months in arrears or not in arrears M = 1 or for all the Loans that are three months or more in arrears M = 0.7;

B = the sum of the amount of any cash standing to the credit of the GIC Account and the principal amount of any Authorised Investments (excluding any Revenue Receipts received in the immediately preceding Calculation Period);

C = the aggregate outstanding principal balance of any Substitution Assets;

Z = the weighted average remaining maturity of all Covered Bonds then outstanding ***multiplied by*** the Sterling Equivalent of the aggregate Principal Amount Outstanding of the Covered Bonds ***multiplied by*** the Negative Carry Factor.

Sale of Selected Loans and their Related Security if the Pre-Maturity Test is breached

The LLP Deed provides for sales of Selected Loans and their Related Security in certain circumstances where the Pre-Maturity Test has been breached. The Pre-Maturity Test will be breached if the ratings of the Issuer fall below a specified level and a Hard Bullet Covered Bond is due for repayment within a specified period of time thereafter (see further "*Credit Structure – Pre-Maturity Liquidity"* below). The LLP will be obliged to sell the Selected Loans and their Related Security to Purchasers, subject to the rights of pre-emption enjoyed by the Sellers to buy the Selected Loans and their Related Security pursuant to the terms of the Mortgage Sale Agreement, in accordance with the procedure summarised in "*– Method of Sale of Selected Loans"* below and subject to any Revenue Receipts and Principal Receipts standing to the credit of the GIC Account, any Cash Capital Contribution or Loan repurchase made by the Members or any Intercompany Loan funded by the issue of Soft Bullet Covered Bonds by the Issuer. If the Issuer and the Guarantor fail to repay any Series of Hard Bullet Covered Bonds on the Final Maturity Date thereof, then following the service of a Notice to Pay on the LLP, the proceeds from any sale of Selected Loans or any amounts standing to the credit of the Pre-Maturity Liquidity Ledger will be applied to repay the relevant Series of Hard Bullet Covered Bonds. Otherwise, the proceeds will be applied as set out in "*Credit Structure – Pre-Maturity Liquidity"* below.

Sale of Selected Loans and their Related Security following service of an Asset Coverage Test Breach Notice

After service of an Asset Coverage Test Breach Notice (which has not been revoked) or the service of a Notice to Pay and prior to service of an LLP Acceleration Notice, the LLP will be obliged to sell Selected Loans and their Related Security in the Portfolio in accordance with the LLP Deed (as described below), subject to the rights of pre-emption enjoyed by the Seller to buy the Selected Loans and their Related Security pursuant to the Mortgage Sale Agreement and subject to any Cash Capital Contribution made by the Members. The proceeds from any such sale or refinancing will be credited to the GIC Account and applied as set out in the Priorities of Payments (see "*Cashflow–Allocation and distribution of Available Revenue Receipts and Available Principal Receipts following service of an Asset Coverage Test Breach Notice*" below).

Sale of Selected Loans and their Related Security following service of a Notice to Pay

After a Notice to Pay has been served on the LLP but prior to service of an LLP Acceleration Notice and/or the commencement of winding-up proceedings against the LLP and/or realisation of the Security, the LLP will be obliged to sell Selected Loans and their Related Security in the Portfolio in accordance with the LLP Deed (as described below), subject to the rights of pre-emption enjoyed by the Seller to buy the Selected

Loans and their Related Security pursuant to the Mortgage Sale Agreement. The proceeds from any such sale or refinancing will be credited to the GIC Account and applied as set out in the Guarantee Priority of Payments.

Method of Sale of Selected Loans

If the LLP is required to sell Selected Loans and their Related Security to Purchasers following a breach of the Pre-Maturity Test, the service of an Asset Coverage Test Breach Notice (if not revoked) or a Notice to Pay, the LLP will be required to ensure that before offering Selected Loans for sale:

(d) the Selected Loans have been selected from the Portfolio on a random basis as described in the LLP Deed; and

(e) the Selected Loans have an aggregate True Balance in an amount (the **Required True Balance Amount**) which is as close as possible to the amount calculated as follows:

(i) following the Service of an Asset Coverage Test Breach Notice (but prior to service of a Notice to Pay), such amount that would ensure that, if the Selected Loans were sold at their True Balance plus the Arrears of Interest and Accrued Interest thereon, the Asset Coverage Test would be satisfied on the next Calculation Date taking into account the payment obligations of the LLP on the Payment Date following that Calculation Date (assuming for this purpose that the Asset Coverage Test Breach Notice is not revoked on the next Calculation Date); or

(ii) following a breach of the Pre-Maturity Test or service of a Notice to Pay:

$$N \times \frac{\text{True Balance of all the Loans in the Portfolio}}{\text{the Sterling Equivalent of the Required Redemption Amount in respect of each Series of Covered Bonds then outstanding}}$$

where "N" is an amount equal to:

- in respect of Selected Loans being sold following a breach of the Pre-Maturity Test, the Required Redemption Amount of the relevant Series of Hard Bullet Covered Bonds less amounts standing to the credit of the Pre-Maturity Liquidity Ledger that are not otherwise required to provide liquidity for any Series of Hard Bullet Covered Bonds which mature prior to or on the same date as the relevant Series of Hard Bullet Covered Bonds; or

- in respect of the Selected Loans being sold following the service of a Notice to Pay, the Sterling Equivalent of the Required Redemption Amount of the Earliest Maturing Covered Bonds less amounts standing to the credit of the GIC Account and the principal amount of any Authorised Investments (excluding all amounts to be applied on the next following LLP Payment Date to repay higher ranking amounts in the Guarantee Priority of Payments and those amounts that are required to repay any Series of Covered Bonds which mature prior to or on the same date as the relevant Series of Covered Bonds).

The LLP will offer the Selected Loans and their Related Security for sale to Purchasers for the best price reasonably available but in any event:

(a) following the service of an Asset Coverage Test Breach Notice (but prior to the service of a Notice to Pay), for an amount not less than the True Balance of the Selected Loans plus the Arrears of Interest and Accrued Interest thereon; and

(b) following a breach of the Pre-Maturity Test or a service of a Notice to Pay, for an amount not less than the Adjusted Required Redemption Amount.

Following a breach of the Pre-Maturity Test or a the service of a Notice to Pay, if the Selected Loans and their Related Security have not been sold (in whole or in part) in an amount equal to the Adjusted Required Redemption Amount by the date which is six months prior to, as applicable, (i) in respect of Covered Bonds that are not subject to an Extended Due for Payment Date in respect of the Covered Bond Guarantee, the Final Maturity Date (ii) in respect of a sale in connection with the Pre-Maturity Test, the Final Maturity Date of the relevant Series of Hard Bullet Covered Bonds or (iii) in respect of Covered Bonds that are subject to an Extended Due for Payment Date in respect of the Covered Bond Guarantee, the Extended Due for Payment Date in respect of the Earliest Maturing Covered Bonds (after taking into account all payments, provisions and credits to be made in priority thereto), then the LLP will offer the Selected Loans for sale for the best price reasonably available notwithstanding that such amount may be less than the Adjusted Required Redemption Amount.

Following the service of a Notice to Pay, in addition to offering Selected Loans for sale to Purchasers in respect of the Earliest Maturing Covered Bonds, the LLP (subject to the rights of pre-emption enjoyed by the Seller pursuant to the Mortgage Sale Agreement) is permitted to offer for sale a portfolio of Selected Loans, in accordance with the provisions summarised above, in respect of other Series of Covered Bonds.

The LLP is also permitted to offer for sale to Purchasers a Partial Portfolio. Except in circumstances where the portfolio of Selected Loans is being sold within six months of, as applicable, the Final Maturity Date or, if the Covered Bonds are subject to an Extended Due for Payment Date in respect of the Covered Bond Guarantee, the Extended Due for Payment Date in respect of the Series of Covered Bonds to be repaid from such proceeds, the sale price of the Partial Portfolio (as a proportion of the Adjusted Required Redemption Amount) shall be at least equal to the proportion that the Partial Portfolio bears to the relevant portfolio of Selected Loans.

The LLP will through a tender process appoint a portfolio manager of recognised standing on a basis intended to incentivise the portfolio manager to achieve the best price for the sale of the Selected Loans (if such terms are commercially available in the market) and to advise it in relation to the sale of the Selected Loans to Purchasers (except where the Seller is buying the Selected Loans in accordance with their right of pre-emption in the Mortgage Sale Agreement). The terms of the agreement giving effect to the appointment in accordance with such tender shall be approved by the Security Trustee.

In respect of any sale or refinancing of Selected Loans and their Related Security following service of an Asset Coverage Test Breach Notice (if not revoked) or a Notice to Pay, the LLP will instruct the portfolio manager to use all reasonable endeavours to procure that Selected Loans are sold as quickly as reasonably practicable (in accordance with the recommendations of the portfolio manager) taking into account the market conditions at that time and the scheduled repayment dates of the Covered Bonds and the terms of the LLP Deed.

The terms of any sale and purchase agreement with respect to the sale of Selected Loans (which shall give effect to the recommendations of the portfolio manager) will be subject to the prior written approval of the Security Trustee. The Security Trustee will not be required to release the Selected Loans from the Security unless the conditions relating to the release of the Security (as described under "*– Deed of Charge – Release of Security*", below) are satisfied.

Following the service of a Notice to Pay, if Purchasers accept the offer or offers from the LLP so that some or all of the Selected Loans shall be sold prior to the next following Final Maturity Date of the Hard Bullet Covered Bonds or, as applicable, if the Covered Bonds are subject to an Extended Due for Payment Date in respect of the Covered Bond Guarantee, the next following Extended Due for Payment Date in respect of the Earliest Maturing Covered Bonds, then the LLP will, subject to the foregoing paragraph, enter into a sale and purchase agreement with the relevant Purchasers which will require *inter alia* a cash payment from the

relevant Purchasers. Any such sale will not include any Representations and Warranties from the LLP in respect of the Loans and the Related Security unless expressly agreed by the Security Trustee or otherwise agreed with the Seller.

Covenants of the LLP and the Members

Each of the Members has covenanted that, subject to the terms of the Transaction Documents, it will not sell, transfer, convey, create or permit to arise any security interest on, declare a trust over, create any beneficial interest in or otherwise dispose of its interest in the LLP without the prior written consent of the LLP and, whilst the Covered Bonds are outstanding, the Security Trustee. Whilst any amounts are outstanding in respect of the Covered Bonds, each of the Members undertakes not to terminate or purport to terminate the LLP or institute any winding-up, administration, insolvency or similar proceedings against the LLP.

The LLP has covenanted that it will not, save with the prior written consent of the LLP Management Committee (and, for so long as any Covered Bonds are outstanding, the consent of the Security Trustee) or as envisaged by the Transaction Documents:

(a) create or permit to subsist any security interest over the whole or any part of its assets or undertakings, present or future;

(b) dispose of, deal with or grant any option or present or future right to acquire any of its assets or undertakings or any interest therein or thereto;

(c) have an interest in a bank account other than as set out in the Transaction Documents;

(d) incur any indebtedness or give any guarantee or indemnity in respect of any such indebtedness;

(e) consolidate or merge with or transfer any of its property or assets to another person;

(f) have any employees, premises or subsidiaries;

(g) acquire assets other than pursuant to the Mortgage Sale Agreement, the Cash Management Agreement and the LLP Deed;

(h) engage in any activities or derive income from any activities within the United States or hold any property if doing so would cause it to be engaged or deemed to be engaged in a trade or business within the United States;

(i) enter into any contracts, agreements or other undertakings;

(j) compromise, compound or release any debt due to it;

(k) commence, defend, settle or compromise any litigation or other claims relating to it or any of its assets; or

(l) be a member of any VAT Group.

The LLP and each of the Members further covenants that from and including the date on which the Issuer is admitted to the register of issuers pursuant to Regulation 14 of the RCB Regulations it will:

(a) ensure that the Asset Pool will only comprise of those assets set out in items (a) to (h) of Regulation 3(1) (Asset Pool) of the RCB Regulations;

(b) ensure that the Loans and the Related Security, the Substitution Assets and the Authorised Investments contained in the Asset Pool comply with the definition of "eligible property" in Regulation 2 (Eligible Property) of the RCB Regulations;

(c) keep a record of those assets that form part of the Asset Pool (which, for the avoidance of doubt, shall not include any Swap Collateral) as prescribed by Regulation 3(2) of the RCB Regulations; and

(d) at all times comply with its obligations under the RCB Regulations and/or the RCB Sourcebook.

Limit on Investing in Substitution Assets

Prior to the service of an Asset Coverage Test Breach Notice (if not revoked) or a Notice to Pay on the LLP, the LLP will be permitted to invest Available Revenue Receipts, Available Principal Receipts and the proceeds of Term Advances standing to the credit of the GIC Account in Substitution Assets, provided that the aggregate amount so invested in Substitution Assets does not exceed 10% of the total assets of the LLP at any one time and provided that such investments are made in accordance with the terms of the Cash Management Agreement. Depositing such amounts in any LLP Account will not constitute an investment in Substitution Assets for these purposes.

Following service of an Asset Coverage Test Breach Notice (if not revoked) or a Notice to Pay on the LLP, all Substitution Assets must be sold by the LLP (or the Cash Manager on its behalf) as quickly as reasonably practicable and the proceeds credited to the GIC Account and the LLP will be permitted to invest all available moneys in Authorised Investments, provided that such investments are made in accordance with the terms of the Cash Management Agreement.

There is no limit on the amounts that the LLP shall be entitled to invest in Authorised Investments.

Other Provisions

The allocation and distribution of Revenue Receipts, Principal Receipts and all other amounts received by the LLP is described under "*Cashflows*" below.

The LLP Management Committee, comprised as at the date of this Base Prospectus of directors, officers and/or employees of Nationwide, will act on behalf of the LLP to which (other than any decision to approve the audited accounts of the LLP or to make a resolution for the voluntary winding up of the LLP, which requires a unanimous decision of the Members) the Members delegate all matters. Any decision by the LLP Management Committee relating to the admission of a New Member, any change in the LLP's business, any change to the LLP's name and any amendment to the LLP Deed, will be made, whilst any Covered Bonds are outstanding, with the consent of the Security Trustee.

For so long as any Covered Bonds are outstanding, each Member has agreed that it will not terminate or purport to terminate the LLP or institute any winding-up, administration, insolvency or other similar proceedings against the LLP. Furthermore, the Members have agreed *inter alia* not to demand or receive payment of any amounts payable by the LLP (or the Cash Manager on its behalf) or the Security Trustee unless all amounts then due and payable by the LLP to all other creditors ranking higher in the relevant Priorities of Payments have been paid in full.

Each Member will be responsible for the payment of its own tax liabilities and will be required to indemnify the LLP and the other Members from any liabilities which they incur as a result of the relevant Member's non-payment.

Following the appointment of a liquidator to any Member (other than the Liquidation Member), any decisions of the LLP that are reserved to the Members in the LLP Deed shall be made by the Liquidation Member only.

The LLP Deed is governed by English law.

Cash Management Agreement

The Cash Manager provides certain cash management services to the LLP pursuant to the terms of the Cash Management Agreement entered into on the Initial Programme Date as amended and restated on 27 November 2006, 30 November 2007, 30 April 2008 and on 3 July 2009 between the LLP, Nationwide in its capacity as the Cash Manager and the Security Trustee.

The Cash Manager's services include but are not limited to:

(a) maintaining the Ledgers on behalf of the LLP;

(b) maintaining records of all Authorised Investments and/or Substitution Assets, as applicable in accordance with Regulation 3(2) of the RCB Regulations;

(c) distributing the Revenue Receipts and the Principal Receipts in accordance with the Priorities of Payment described under "*Cashflows*", below;

(d) determining whether the Asset Coverage Test is satisfied on each Calculation Date in accordance with the LLP Deed, as more fully described under "*Credit Structure – Asset Coverage Test*", below;

(e) determining whether the Amortisation Test is satisfied on each Calculation Date following an Issuer Event of Default in accordance with the LLP Deed, as more fully described under "*Credit Structure – Amortisation Test*", below;

(f) on each London Business Day, determining whether the Pre-Maturity Test for each Series of Hard Bullet Covered Bonds is satisfied as more fully described under "*Credit Structure – Pre-Maturity Liquidity*", below;

(g) providing the FSA with information on the composition of any Substitute Assets and/or Authorised Investments comprised in the assets of the LLP and/or such other information as may be required by the FSA in accordance with the RCB Regulations; and

(h) preparation of Investor Reports for, among others, the Issuer, the Rating Agencies and the Bond Trustee.

In certain circumstances the LLP and the Security Trustee will each have the right to terminate the appointment of the Cash Manager in which event the LLP will appoint a substitute (the identity of which will be subject to the Security Trustee's written approval). Any substitute cash manager will have substantially the same rights and obligations as the Cash Manager (although the fee payable to the substitute cash manager may be higher).

The Cash Management Agreement is governed by English law.

Interest Rate Swap Agreement

Some of the Loans in the Portfolio pay a variable rate of interest for a period of time that may be linked either to the Seller's Standard Variable Rate or linked to an interest rate other than the Seller's Standard Variable Rate, such as a rate that tracks the Bank of England base rate. Other Loans pay a fixed rate of interest for a period of time. However, the Sterling payments to be made by the LLP under the Covered Bond Swaps or the Term Advances under the Intercompany Loan Agreement are based on LIBOR for either three month or one month Sterling deposits. To provide a hedge against the possible variance between:

(a) the rates of interest payable on the Loans in the Portfolio; and

(b) LIBOR for three month or one month Sterling deposits,

the LLP, the Interest Rate Swap Provider and the Security Trustee have entered into the Interest Rate Swap Agreement on or about the Initial Programme Date (as amended and/or supplemented and/or restated from time to time) and the Interest Rate Swaps (which, as per the definition of such term in the "*Glossary*" section below, means the Jumbo Interest Rate Swaps and the Reset Interest Rate Swaps) thereunder.

Jumbo Interest Rate Swaps

The combined effect of the Jumbo Interest Rate Swaps is such that, for each Calculation Period, the following amounts will be calculated:

- the amount produced by applying LIBOR for three month Sterling deposits (as determined on the first London Business Day of such Calculation Period) plus a spread relating to that Calculation Period to the notional amount of the Jumbo Interest Rate Swaps (being equal to the aggregate True Balance of all Loans in the Portfolio, the **Jumbo Notional Amount**) for such Calculation Period (known as the Interest Rate Swap Provider Amount); and

- the amount produced by applying a rate equal to the weighted average of:

  (i) in respect of Loans that are linked to the Seller's SMR, the average of the standard variable mortgage rates or their equivalent charged to existing borrowers on residential mortgage loans as published from time to time, after excluding the highest and the lowest rate, of the Reference Lenders (and where those banks or building societies have more than one standard variable rate, the highest of those rates);

  (ii) in respect of Loans that are linked to the Seller's BMR, the average of the standard variable mortgage rates or their equivalent charged to existing borrowers on residential mortgage loans as published from time to time, after excluding the highest and the lowest rate, of the Reference Lenders (and where those banks or building societies have more than one standard variable mortgage rate, the highest of those rates) provided that each such standard variable mortgage rate or its equivalent shall be subject to a cap of Bank of England base rate plus 2.60%;

  (iii) in respect of tracker rate loans, Bank of England base rate; and

  (iv) the rates of interest payable on the fixed rate loans,

  for such Calculation Period to the Jumbo Notional Amount for such Calculation Period (known as the **LLP Amount**).

On each Calculation Date preceding each LLP Payment Date the following amounts will be calculated:

- the Interest Rate Swap Provider Amount for the preceding Calculation Period; and

- the LLP Amount for the preceding Calculation Period.

After these two amounts are calculated in relation to a LLP Payment Date, the following payments will be made on that LLP Payment Date:

- if the first amount is greater than the second amount, then the Interest Rate Swap Provider will pay the difference to the LLP;

- if the second amount is greater than the first amount, then the LLP will pay the difference to the Interest Rate Swap Provider; and

- if the two amounts are equal, neither party will make a payment to the other.

Subject to the early termination provisions of the Interest Rate Swap Agreement as outlined below, the Jumbo Interest Rate Swaps will terminate when the Jumbo Notional Amount is reduced to zero.

Reset Interest Rate Swaps

Each Reset Interest Rate Swap relates to a particular Series or Tranche of Covered Bonds and is entered into to hedge the possible variance between LIBOR for one month Sterling deposits and LIBOR for three month or one month Sterling deposits that matches the Sterling payments to be made by the LLP under the Covered Bond Swaps or the relevant Term Advance on the Interest Payment Date in respect of that Series or Tranche of Covered Bonds.

Pursuant to each Reset Interest Rate Swap, the Interest Rate Swap Provider will pay to the LLP, on each Interest Payment Date relating to the relevant Series or Tranche of Covered Bonds, LIBOR for one month or three month Sterling deposits (as applicable and determined, in each case, on the first day of the corresponding Interest Period) on the notional amount (the **Reset Notional Amount**) being equal to the aggregate Principal Amount Outstanding in respect of the relevant Series or Tranche of the Covered Bonds on the Issue Date (subject to any reductions to the extent of any Early Redemption Amount in respect of the relevant Series or Tranche of Covered Bonds pursuant to Condition 9.2 of the Covered Bonds, or any part of the Principal Amount Outstanding of any Covered Bonds of the relevant Series or Tranche purchased and cancelled pursuant to Conditions 6.8 and 6.9 of the Covered Bonds, or (if an Extended Due for Payment Date is specified as applicable in the Final Terms for a Series or Tranche of Covered Bonds and the payment of the amount corresponding to the Final Redemption Amount or any part of it by the LLP under the Covered Bond Guarantee is deferred until the relevant Extended Due for Payment Date pursuant to Condition 6.1 of the Covered Bonds) the Final Redemption Amount (or part thereof) paid in respect of the relevant Series or Tranche of Covered Bonds, in each case, on or prior to the first day of the Interest Period relating to such Interest Payment Date). In exchange, the LLP will pay to the Interest Rate Swap Provider, on each LLP Payment Date, LIBOR for one month Sterling deposits (as determined on the first London Business Day of the Calculation Period) on the Reset Notional Amount (which shall be subject to any of the reductions set out in the previous sentence but only to the extent that such reductions were effected on or prior to the first London Business Day of the Calculation Period immediately preceding such LLP Payment Date). Subject to the early termination provisions of the Interest Rate Swap Agreement as outlined below, each Reset Interest Rate Swap will terminate on the earlier of (i) the relevant Final Maturity Date or (if an Extended Due for Payment Date is specified as applicable in the Final Terms for a Series of Covered Bonds and the payment of the amount corresponding to the Final Redemption Amount or any part of it by the LLP under the Covered Bond Guarantee is deferred until the relevant Extended Due for Payment Date pursuant to Condition 6.1 (Final redemption) of the Covered Bonds) the earlier of (A) the relevant Extended Due for Payment Date and (B) the Interest Payment Date on which the relevant Series or Tranche of Covered Bonds is redeemed in full, (ii) the final date on which the Security Trustee distributes the proceeds of the Security in accordance with the Post-Enforcement Priority of Payments following the enforcement of the Security pursuant to Condition 9.3, (iii) the date on which the relevant Series of Covered Bonds has been redeemed pursuant to Condition 9.2, (iv) the payment date on which the Reset Notional Amount is reduced to zero and (v) the date of redemption in respect of the relevant Series or Tranche of Covered Bonds pursuant to Condition 6.2, 6.3 or 6.4.

In the event that the relevant ratings of the Interest Rate Swap Provider, or any guarantor, as applicable, is or are, as applicable, downgraded by a Rating Agency below the ratings specified in the Interest Rate Swap Agreement (which are in accordance with the minimum ratings specified in the relevant ratings criteria of the Rating Agencies) for the Interest Rate Swap Provider, the Interest Rate Swap Provider will be required to take certain remedial measures which may include providing collateral for its obligations, arranging for its

obligations to be transferred to an entity with ratings required by the relevant Rating Agency, procuring another entity with rating(s) required by the relevant Rating Agency to become co-obligor in respect of its obligations, or taking such other action that the relevant Rating Agency has confirmed will not adversely affect the ratings of the Covered Bonds in effect immediately prior to the downgrade. A failure to take such steps will allow the LLP to terminate the Interest Rate Swap Agreement.

The Interest Rate Swap Agreement may also be terminated in certain other circumstances (each referred to as an **Interest Rate Swap Early Termination Event**), including:

- at the option of any party to the Interest Rate Swap Agreement, if there is a failure by the other party to pay any amounts due under the Interest Rate Swap Agreement (for the avoidance of doubt, no such failure to pay by the Issuer will entitle the Interest Rate Swap Provider to terminate the Interest Rate Swap Agreement, if such failure is due to the assets available at such time to the LLP being insufficient to make the required payment in full); and

- upon the occurrence of the insolvency of the Interest Rate Swap Provider, or any guarantor and certain insolvency-related events in respect of the LLP, or the merger of the Interest Rate Swap Provider without an assumption of the obligations under the Interest Rate Swap Agreement.

Upon the termination of the Interest Rate Swap Agreement pursuant to an Interest Rate Swap Early Termination Event, the LLP or the Interest Rate Swap Provider may be liable to make a termination payment to the other in accordance with the provisions of the Interest Rate Swap Agreement.

If withholding taxes are imposed on payments made by the Interest Rate Swap Provider under the Interest Rate Swap Agreement, the Interest Rate Swap Provider shall always be obliged to gross up these payments. If withholding taxes are imposed on payments made by the LLP to the Interest Rate Swap Provider under the Interest Rate Swap Agreement, the LLP shall not be obliged to gross up those payments.

Under the Interest Rate Swap Agreement, the LLP's obligations are limited in recourse to the Charged Property.

The Interest Rate Swap Agreement is governed by English law.

Covered Bond Swap Agreements

The LLP has entered into one or more Covered Bond Swaps with one or more Covered Bond Swap Providers and the Security Trustee. Each Covered Bond Swap will provide a hedge against certain interest rate and currency risks in respect of amounts received by the LLP under the Loans and the Interest Rate Swaps and amounts payable by the LLP under the Intercompany Loan Agreement (prior to the service of a Notice to Pay on the LLP) and under the Covered Bond Guarantee in respect of Covered Bonds (after the service of a Notice to Pay on the LLP).

Where required to hedge such risks, there will be one (or more) Covered Bond Swap Agreement(s) and Covered Bond Swap(s) in relation to each Series or Tranche, as applicable, of Covered Bonds. In respect of each Series or Tranche of the Covered Bonds, the LLP will enter into (a) one or more basis swap transactions (each, a **Basis Covered Bond Swap**) and (b) one or more interest rate swap transactions (each, an **Interest Rate Covered Bond Swap**), each with the same Covered Bond Swap Provider and in respect of the same aggregate notional amount, being the aggregate Principal Amount Outstanding on the Issue Date of the applicable Series or Tranche of Covered Bond.

Under each Basis Covered Bond Swap, the LLP will pay to the relevant Covered Bond Swap Provider on the relevant Issue Date a portion of the amount received by the LLP under the applicable Term Advance (being an amount equal to the relevant portion of the Principal Amount Outstanding on the Issue Date of such Series or Tranche, as applicable, of Covered Bonds) and in return the Covered Bond Swap Provider will pay

an amount equal to the Sterling Equivalent of such amount of the applicable Term Advance. Thereafter, the Covered Bond Swap Provider will pay monthly or quarterly to the LLP an amount in the Specified Currency equivalent to the amounts payable on such Interest Payment Date by the LLP under either the applicable Term Advance (or the relevant portion thereof) in accordance with the terms of the Intercompany Loan Agreement, as the case may be, or the Covered Bond Guarantee in respect of interest and principal payable under the relevant Series or Tranche of Covered Bonds (or the relevant portion thereof). In return, the LLP will pay to the Covered Bond Swap Provider an amount in Sterling calculated by reference to LIBOR for one month or three month Sterling deposits (as applicable) (or one month Sterling deposits, in respect of any Interest Payment Date falling after the relevant Final Maturity Date) for the relevant Interest Period plus a spread and the Sterling Equivalent of any such principal due in respect of the relevant Term Advance in accordance with the Intercompany Loan Agreement or the Covered Bond Guarantee (see "*Cashflows*").

If prior to the Final Maturity Date in respect of the relevant Series or Tranche of Covered Bonds or (if an Extended Due for Payment Date is specified as applicable in the Final Terms for a Series of Covered Bonds and the payment of the amount corresponding to the Final Redemption Amount or any part of it by the LLP under the Covered Bond Guarantee is deferred until the relevant Extended Due for Payment Date pursuant to Condition 6.1 (Final redemption) of the Terms and Conditions of the Covered Bonds) any Interest Payment Date thereafter up to (and including) the relevant Extended Due for Payment Date, the LLP notifies (pursuant to the terms of the Basis Covered Bond Swap) the relevant Covered Bond Swap Provider of the amount in the Specified Currency to be paid by the Covered Bond Swap Provider on such Final Maturity Date or Interest Payment Date (such amount being equal to the relevant portion of the Final Redemption Amount payable by the LLP on such Final Maturity Date or Interest Payment Date under the Covered Bond Guarantee in respect of the relevant Series or Tranche of Covered Bonds), the Covered Bond Swap Provider will pay the LLP such amount and the LLP will pay the Covered Bond Swap Provider the Sterling Equivalent of such amount. Further, if on any day an Early Redemption Amount is payable pursuant to Condition 9.2 (LLP Events of Default), the Covered Bond Swap Provider will pay the LLP such amount (or the relevant portion thereof) and the LLP will pay the Covered Swap Provider the Sterling Equivalent thereof, following which the notional amount of the relevant Covered Bond Swaps will reduce accordingly.

Subject to the early termination provisions of the relevant Covered Bond Swap Agreement as outlined below, each Basis Covered Bond Swap will terminate on the earlier of: (i) the date on which the relevant Series of the Covered Bonds is redeemed pursuant to Condition 9.2 (LLP Events of Default) (ii) the relevant Final Maturity Date; (iii) the final date on which the Security Trustee distributes the proceeds of the Security in accordance with the Post-Enforcement Priority of Payments following the enforcement of the Security pursuant to Condition 9.3 (Enforcement); or (iv) (if an Extended Due for Payment Date is specified as applicable in the Final Terms for a Series of Covered Bonds and the payment of the amount corresponding to the Final Redemption Amount or any part of it by the LLP under the Covered Bond Guarantee is deferred until the relevant Extended Due for Payment Date pursuant to Condition 6.1 (Final redemption) of the Covered Bonds) the earlier of (a) the relevant Extended Due for Payment Date and (b) the Interest Payment Date on which the relevant Series or Tranche of Covered Bonds is redeemed in full.

Under an Interest Rate Covered Bond Swap, the relevant Covered Bond Swap Provider will pay to the LLP on each Interest Payment Date an amount equivalent to the amount of interest that would be payable, on such Interest Payment Date, by the LLP under either the relevant portion of the applicable Term Advance under the Intercompany Loan or, as the case may be, the relevant portion of the Covered Bond Guarantee in respect of the interest under the relevant Series or Tranche of the Covered Bonds. In return, the LLP will pay the Covered Bond Swap Provider the amount received on the relevant monthly or quarterly payment date under the corresponding Basis Covered Bond Swap.

Each Interest Rate Covered Bond Swap will terminate in accordance with the termination provisions of the relevant Covered Bond Swap Agreement.

Under the terms of each Covered Bond Swap Agreement, in the event that the relevant rating of the Covered Bond Swap Provider is downgraded by a Rating Agency below the rating(s) specified in the relevant

Covered Bond Swap Agreement (which are in accordance with the minimum ratings specified in the relevant ratings criteria of the Rating Agencies) for the Covered Bond Swap Provider, and, where applicable, as a result of the downgrade, the then current ratings of the Covered Bonds would or may, as applicable, be adversely affected, the Covered Bond Swap Provider will, in accordance with the relevant Covered Bond Swap Agreement, be required to take certain remedial measures which may include providing collateral for its obligations under the Covered Bond Swap Agreement, arranging for its obligations under the Covered Bond Swap Agreement to be transferred to an entity with the ratings required by the relevant Rating Agency, procuring another entity with the ratings required by the relevant Rating Agency to become co-obligor in respect of its obligations under the Covered Bond Swap Agreement, or taking such other action as it may agree with the relevant Rating Agency. A failure to take such steps will allow the LLP to terminate the Covered Bond Swaps entered into under that Covered Bond Swap Agreement.

A Covered Bond Swap Agreement may also be terminated in certain other circumstances (each referred to as a **Covered Bond Swap Early Termination Event**), including:

- at the option of any party to the Covered Bond Swap Agreement, if there is a failure by the other party to pay any amounts due under such Covered Bond Swap Agreement (for the avoidance of doubt, no such failure to pay by the Issuer will entitle the relevant Covered Bond Swap Provider to terminate the Covered Bond Swap Agreement, if such failure is due to the assets available at such time to the LLP being insufficient to make the required payment in full); and

- upon the occurrence of the insolvency of the relevant Covered Bond Swap Provider or any guarantor, and certain insolvency-related events in respect of the LLP or the merger of the Covered Bond Swap Provider without an assumption of the obligations under the relevant Covered Bond Swap Agreement.

Upon the termination of a Covered Bond Swap Agreement, the LLP or the relevant Covered Bond Swap Provider may be liable to make a termination payment to the other in accordance with the provisions of the relevant Covered Bond Swap Agreement. The amount of this termination payment will be calculated and made either in Sterling or, in respect of some Covered Bond Swap Agreements, in the same currency as the Series or Tranche of Covered Bonds to which such Covered Bond Swap Agreement relates.

Any termination payment made by the Covered Bond Swap Provider to the LLP in respect of a Covered Bond Swap Agreement will first be used (prior to the occurrence of an LLP Event of Default and service of an LLP Acceleration Notice and/or the commencement of winding-up proceedings against the LLP and/or realisation of the Security) to pay a replacement Covered Bond Swap Provider (or replacement Covered Bond Swap Providers) to enter into a replacement Covered Bond Swap with the LLP, unless a replacement Covered Bond Swap Agreement (or replacement Covered Bond Swap Agreements) has already been entered into on behalf of the LLP. Any premium received by the LLP from a replacement Covered Bond Swap Provider in respect of a replacement Covered Bond Swap will first be used to make any termination payment due and payable by the LLP with respect to the previous Covered Bond Swap Agreement, unless such termination payment has already been made on behalf of the LLP.

If withholding taxes are imposed on payments made by any Covered Bond Swap Provider to the LLP under a Covered Bond Swap Agreement, such Covered Bond Swap Provider shall always be obliged to gross up those payments. If withholding taxes are imposed on payments made by the LLP to the Covered Bond Swap Provider under a Covered Bond Swap Agreement, the LLP shall not be obliged to gross up those payments.

In the event that the Covered Bonds are redeemed and/or cancelled in accordance with the Conditions, the Covered Bond Swap(s) in connection with such Covered Bonds may terminate or partially terminate, as the case may be. Any breakage costs payable by or to the LLP in connection with such termination will be taken into account in calculating:

(a) the Adjustment Required Redemption Amount for the Sale of Selected Loans; and

(b) the purchase price to be paid for the relevant Covered Bonds purchased by the LLP in accordance with Condition 6.5 (Early Redemption Amounts).

Under each Covered Bond Swap Agreement, the LLP's obligations are limited in recourse to the Charged Property. To the extent that the LLP is unable to make any payment in full under any Covered Bond Swap due to its assets being insufficient to make such payment in full, the relevant Covered Bond Swap Provider's payment obligations will rateably reduce.

The Covered Bond Swap Agreements are (or, as applicable, will be) governed by English law.

Bank Account Agreement

Pursuant to the terms of the Bank Account Agreement entered into on the Initial Programme Date between the LLP, the Account Bank, the Cash Manager and the Security Trustee, the LLP will maintain with the Account Bank the accounts described below, which will be operated in accordance with the Cash Management Agreement, the LLP Deed and the Deed of Charge:

(a) the GIC Account into which amounts may be deposited by the LLP (including, following the occurrence of an Issuer Event of Default which is not cured within the applicable grace period, all amounts received from Borrowers in respect of Loans in the Portfolio). On each LLP Payment Date as applicable, amounts required to meet the LLP's various creditors and amounts to be distributed to the Members under the LLP Deed will be transferred to the Transaction Account (to the extent maintained); and

(b) the Transaction Account (if such account is maintained) into which, moneys standing to the credit of the GIC Account will be transferred on each LLP Payment Date and applied by the Cash Manager in accordance with the Priorities of Payments described below under "*Cashflows*".

If the short term, unsecured, unsubordinated and unguaranteed debt obligations of the Account Bank cease to be rated at least A-1 by S&P, P-1 by Moody's, or F1 by Fitch then either:

- the GIC Account and the Transaction Account (to the extent maintained) will be closed and all amounts standing to the credit thereof shall be transferred to accounts held with a satisfactorily rated bank; or

- the Account Bank will obtain an unconditional and unlimited guarantee of its obligations under the Bank Account Agreement from a satisfactorily rated financial institution.

The Bank Account Agreement is governed by English law.

Stand-by Bank Account Agreement

Pursuant to the terms of a stand-by bank account agreement entered into on the Initial Programme Date between the LLP, Citibank, N.A. (the **Stand-by Account Bank**), the Cash Manager and the Security Trustee (the **Stand-by Bank Account Agreement**), the LLP will open with the Stand-by Account Bank a stand-by GIC account (the **Stand-by GIC Account**) and a stand-by transaction account (the **Stand-by Transaction Account**) if the LLP cannot find a replacement account bank in accordance with the terms of the Bank Account Agreement or the Account Bank cannot obtain an unconditional and unlimited guarantee of its obligations, in each case if the short term, unsecured, unsubordinated and unguaranteed debt obligations of the Account Bank fall below A-1 by S&P, P-1 by Moody's or F-1 by Fitch, and the Bank Account Agreement is subsequently terminated or if the Bank Account Agreement is terminated for other reasons. The Stand-by GIC Account and the Stand-by Transaction Account will be operated in accordance with the Cash Management Agreement, the LLP Deed and the Deed of Charge.

If the short term, unsecured, unsubordinated and unguaranteed debt obligations of the Standby Account Bank fall below A-1+ by S&P, P-1 by Moody's or F1 by Fitch there will be a requirement that the Stand-by Account Bank either be replaced by, or have its obligations guaranteed by, a satisfactorily rated financial institution.

References in this Base Prospectus to the GIC Account or the Transaction Account include references to the Stand-by GIC Account or the Stand-by Transaction Account when the Stand-by GIC Account and the Stand-by Transaction Account become operative.

The Stand-by Bank Account Agreement is governed by English law.

Guaranteed Investment Contract

The LLP has entered into a Guaranteed Investment Contract (or **GIC**) with the GIC Provider, the Cash Manager and the Security Trustee on the Initial Programme Date, pursuant to which the GIC Provider has agreed to pay interest on the moneys standing to the credit thereof at specified rates determined in accordance with the GIC.

The Guaranteed Investment Contract is governed by English law.

Stand-by Guaranteed Investment Contract

The LLP has entered into a stand-by guaranteed investment contract with Citibank, N.A. (the **Stand-by GIC Provider**) on the Initial Programme Date (the **Stand-by Guaranteed Investment Contract**), pursuant to which the Stand-by GIC Provider has agreed to pay interest on the Standby GIC Account at specified rates determined in accordance with the Stand-by Guaranteed Investment Contract.

The Stand-by Guaranteed Investment Contract is governed by English law.

Corporate Services Agreement

The Liquidation Member and Holdings have entered into a Corporate Services Agreement with, *inter alios*, Wilmington Trust SP Services (London) Limited, (as Corporate Services Provider) on the Initial Programme Date, pursuant to which the Corporate Services Provider has agreed to provide corporate services to the Liquidation Member and Holdings respectively.

The Corporate Services Agreement is governed by English law.

Deed of Charge

Pursuant to the terms of the Deed of Charge entered into by the LLP, the Security Trustee and the other Secured Creditors, the secured obligations of the LLP and all other obligations of the LLP under or pursuant to the Transaction Documents to which it is a party are secured, *inter alia*, by the following security (the **Security**) over the following property, assets and rights (the **Charged Property**):

(a) a first fixed charge (which may take effect as a floating charge) over the LLP's interest in the English Loans, Northern Irish Loans and their Related Security and other related rights comprised in the Portfolio;

(b) an assignment by way of first fixed charge over the rights of the LLP in and to the Insurance Policies;

(c) a Scottish supplemental charge constituting an assignation in security of the LLP's interest in the Scottish Loans and their Related Security (comprising the LLP's beneficial interest under the trusts declared by the Seller pursuant to the Scottish Declarations of Trust);

(d) an assignment by way of first fixed security over all of the LLP's interests, rights and entitlements under and in respect of any Transaction Document to which it is a party (and, in respect of the Interest Rate Swap Agreement and Covered Bond Swap Agreement, after giving effect to all applicable netting provisions therein);

(e) a first fixed charge (which may take effect as a floating charge) over the rights and benefits of the LLP in the LLP Accounts (except for the Covered Bond Swap Collateral Accounts and the Stand-by Covered Bond Swap Collateral Accounts) (including any Excess Proceeds) and any other account of the LLP and all amounts standing to the credit of the LLP Accounts (except for the Covered Bond Swap Collateral Accounts and the Stand-by Covered Bond Swap Collateral Accounts) and such other accounts;

(f) a first fixed charge (which may take effect as a floating charge) over the rights and benefits of the LLP in respect of all Authorised Investments and Substitution Assets purchased from time to time from amounts standing to the credit of the LLP Accounts; (except for the Covered Bond Swap Collateral Accounts and the Stand-by Covered Bond Swap Collateral Accounts);

(g) a first fixed charge (which may take effect as a floating charge) over the rights and benefits of the LLP in each Covered Bond Swap Collateral Account and Stand-by Covered Bond Swap Collateral Account and in respect of all Authorised Investments and Substitution Assets purchased from time to time from amounts standing to the credit of the Covered Bond Swap Collateral Accounts and Stand-by Covered Bond Swap Collateral Accounts, provided that any amounts standing to the credit of a Covered Bond Swap Collateral Account or Stand-by Covered Bond Swap Collateral Account shall be held solely for the benefit of the relevant Swap Provider and the LLP until required to be applied pursuant to the relevant Swap Agreement; and

(h) a first floating charge over all the assets and undertaking of the LLP (including the assets and undertaking of the LLP located in Scotland or governed by Scots law and the assets and undertaking of the LLP located in Northern Ireland or governed by the law of Northern Ireland).

In respect of the property, rights and assets referred to in paragraph (c) above, fixed security will be created over such property, rights and assets sold to the LLP after the Programme Date by means of Scottish Supplemental Charges pursuant to the Deed of Charge,

Release of Security

In the event of any sale of Loans (including Selected Loans) and their Related Security by the LLP pursuant to and in accordance with the Transaction Documents, the Security Trustee will (subject to the written request of the LLP), release those Loans from the Security created by and pursuant to the Deed of Charge on the date of such sale but only if:

(a) the Security Trustee provides its prior written consent to the terms of such sale as described under "*LLP Deed – Method of Sale of Selected Loans*" above; and

(b) in the case of the Sale of Selected Loans, the LLP provides to the Security Trustee a certificate confirming that the Selected Loans being sold have been selected on a random basis.

In the event of the repurchase of a Loan and its Related Security by the Seller pursuant to and in accordance with the Transaction Documents, the Security Trustee will release that Loan from the Security created by and pursuant to the Deed of Charge on the date of the repurchase.

Enforcement

If an LLP Acceleration Notice is served on the LLP, the Security Trustee shall be entitled to appoint a Receiver, and/or enforce the Security constituted by the Deed of Charge (including selling the Portfolio), and/or take such steps as it shall deem necessary, subject in each case to being indemnified and/or secured to its satisfaction. All proceeds received by the Security Trustee from the enforcement or realisation of the Security will be applied in accordance with the Post-Enforcement Priority of Payments described under "*Cashflows*".

The Deed of Charge is governed by English law (other than the Scottish Supplemental Charge referred to in paragraph (c) above and any further Scottish Supplemental Charge granted after the Programme Date pursuant and supplemental to the Deed of Charge which will be governed by Scots law and the first fixed charge over the Northern Irish Loans and their Related Security and the floating charge over the assets and undertaking of the LLP located in or governed by the law of Northern Ireland which will be governed by Northern Irish law).

CREDIT STRUCTURE

The Covered Bonds will be direct, unsecured, unconditional obligations of the Issuer. The LLP has no obligation to pay the Guaranteed Amounts under the Covered Bond Guarantee until the occurrence of an Issuer Event of Default, service by the Bond Trustee on the Issuer of an Issuer Acceleration Notice and on the LLP of a Notice to Pay or, if earlier, following the occurrence of an LLP Event of Default, service by the Bond Trustee of an LLP Acceleration Notice. The Issuer will not be relying on payments by the LLP in respect of the Term Advances or receipt of Revenue Receipts or Principal Receipts from the Portfolio in order to pay interest or repay principal under the Covered Bonds.

There are a number of features of the Programme which enhance the likelihood of timely and, as applicable, ultimate payments to holders of the Covered Bonds, as follows:

- the Covered Bond Guarantee provides credit support to the Issuer;
- the Pre-Maturity Test is intended to provide liquidity to the LLP in respect of principal due on the Final Maturity Date of Hard Bullet Covered Bonds;
- the Asset Coverage Test is intended to test the asset coverage of the LLP's assets in respect of the Covered Bonds at all times;
- the Amortisation Test is intended to test the asset coverage of the LLP's assets in respect of the Covered Bonds following the occurrence of an Issuer Event of Default, service of an Issuer Acceleration Notice on the Issuer and service of a Notice to Pay on the LLP;
- a Reserve Fund (unless Nationwide's short term unsecured, unsubordinated and unguaranteed debt obligations are rated at least A-1+ by S&P, F-1+ by Fitch and P-1 by Moody's) will be established in the GIC Account to trap Available Revenue Receipts; and
- under the terms of the Guaranteed Investment Contract, the GIC Provider has agreed to pay a variable rate of interest on all amounts held by the LLP in the GIC Account at a rate of 0.25% per annum below LIBOR for one-month Sterling deposits or such greater amount as the LLP and the GIC Provider may agree from time to time.

Certain of these factors are considered more fully in the remainder of this section.

Guarantee

The Covered Bond Guarantee provided by the LLP under the Trust Deed guarantees payment of Guaranteed Amounts when the same become Due for Payment in respect of all Covered Bonds issued under the Programme. The Covered Bond Guarantee will not guarantee any amount becoming payable for any other reason, including any accelerated payment pursuant to Condition 9 (Events of Default and Enforcement) following the occurrence of an Issuer Event of Default. In this circumstance (and until an LLP Event of Default occurs and an LLP Acceleration Notice is served), the LLP's obligations will only be to pay the Guaranteed Amounts as they fall Due for Payment.

See further "*Summary of the Principal Documents – Trust Deed*" as regards the terms of the Covered Bond Guarantee. See further "*Cashflows – Guarantee Priority of Payments*" as regards the payment of amounts payable by the LLP to holders of the Covered Bonds and other Secured Creditors following the occurrence of an Issuer Event of Default.

Pre-Maturity Liquidity

Certain Series of Covered Bonds are scheduled to be redeemed in full on the Final Maturity Date therefore without any provision for scheduled redemption other than on the Final Maturity Date (the **Hard Bullet Covered Bonds**). The applicable Final Terms will identify whether any Series of Covered Bonds is a Series of Hard Bullet Covered Bonds. The Pre-Maturity Test is intended to provide liquidity for the Hard Bullet Covered Bonds when the Issuer's credit ratings fall to a certain level. On each London Business Day (each the **Pre-Maturity Test Date**) prior to the occurrence of an Issuer Event of Default or the occurrence of an LLP Event of Default, the LLP or the Cash Manager on its behalf will determine if the Pre-Maturity Test has been breached, and if so, it shall immediately notify the Members and the Security Trustee thereof.

The Issuer will fail and be in breach of the **Pre-Maturity Test** on a Pre-Maturity Test Date if:

(a) the Issuer's short-term credit rating from S&P falls to below A-1 and the Final Maturity Date of the Series of Hard Bullet Covered Bonds will fall within 12 months from the relevant Pre-Maturity Test Date; or

(b) the Issuer's (i) long-term credit rating from Moody's falls to below A2 or (ii) short-term credit rating from Moody's falls to below P-1 and in either case the Final Maturity Date of the Series of Hard Bullet Covered Bonds will fall within 12 months from the relevant Pre-Maturity Test Date; or

(c) the Issuer's short-term credit rating from Fitch falls to below F1 and the Final Maturity Date of the Series of Hard Bullet Covered Bonds will fall within 12 months from the relevant Pre-Maturity Test Date.

Following a breach of the Pre-Maturity Test in respect of a Series of Covered Bonds:

(a) any Revenue Receipts and Principal Receipts standing to the credit of the GIC Account on the date of such breach shall be credited to the Pre-Maturity Liquidity Ledger up to an amount not exceeding the Required Redemption Amount for each Series of Hard Bullet Covered Bonds in respect of which the Pre-Maturity Test has been breached; and

(b) no further issuance of Covered Bonds shall be permissible under the Programme Agreement, except as described below,

provided that the restriction on the issuance of Covered Bonds set out in the preceding Clause (b) shall cease to be applicable following either (i) the exercise by any Member (other than the Liquidation Member) of its option (whether or not directed to do so by the Management Committee) to either (a) make a Cash Capital Contribution to the LLP in accordance with the LLP Deed or (b) repurchase Loans, or (ii) the making of an Intercompany Loan to the LLP funded by the issue of Soft Bullet Covered Bonds by the Issuer, in each case, in an amount at least equal to the Required Redemption Amount for the relevant Series of Hard Bullet Covered Bonds less any amounts then standing to the credit of the Pre-Maturity Liquidity Ledger that are not otherwise required to repay any Series of Hard Bullet Covered Bonds which mature prior to or on the same date as the relevant Series of Hard Bullet Covered Bonds. The proceeds from any Intercompany Loan from any such issue of Soft Bullet Covered Bonds will be first applied to make up any shortfall to the Pre-Maturity Liquidity Ledger.

The restriction on Covered Bond issuances set out above following the breach of the Pre-Maturity Test shall cease to be applicable following: (a) the exercise of any of the options in (i) and (ii) in the preceding paragraph; or (b) if the balance standing to the credit of the Pre-Maturity Ledger has reached an amount equal to the Required Redemption Amount for all the relevant Series of Hard Bullet Covered Bonds in respect of which the Pre-Maturity Test is breached.

Any issuance of Hard Bullet Covered Bonds which takes place whilst the Issuer is in breach of the Pre-Maturity Test but following the balance standing to the credit of the Pre-Maturity Ledger having reached an amount equal to the Required Redemption Amount for all the relevant Series of Hard Bullet Covered Bonds in respect of which the Pre-Maturity Test has been breached, must have a Final Maturity Date which is more than 12 months after the relevant Issue Date.

Amounts may not be withdrawn from the GIC Account to the extent that the Pre-Maturity Liquidity Ledger is debited, other than to redeem the relevant series of Hard Bullet Bonds, except where such withdrawal would still result in a credit balance at least equal to the Required Redemption Amount for all relevant Series of Hard Bullet Covered Bonds.

In certain circumstances, Revenue Receipts will also be available to repay a Hard Bullet Covered Bond, as described in "*Cashflows - Pre-Acceleration Revenue Priority of Payments*" below.

Failure by the Issuer and/or the Guarantor to pay the full amount due in respect of a Series of Hard Bullet Covered Bonds on the Final Maturity Date thereof will constitute an Issuer Event of Default. Following service of a Notice to Pay on the LLP, the LLP shall apply funds standing to the Pre-Maturity Liquidity Ledger to repay the relevant Series of Hard Bullet Covered Bonds. If the Issuer and/or the Guarantor fully repay the relevant Series of Hard Bullet Covered Bonds on the Final Maturity Date thereof, cash standing to the credit of the Pre-Maturity Liquidity Ledger on the GIC Account shall be applied by the LLP in accordance with the Pre-Acceleration Principal Priority of Payments, unless:

(a) the Issuer is failing the Pre-Maturity Test in respect of any other Series of Hard Bullet Covered Bonds, in which case the cash will remain on the Pre-Maturity Liquidity Ledger in order to provide liquidity for that other Series of Hard Bullet Covered Bonds but only to the extent required to maintain an amount equal to the Required Redemption Amount for the relevant Series of Hard Bullet Covered Bonds in respect of which the Pre-Maturity Test is breached; or

(b) the Issuer is not failing the Pre-Maturity Test, but the Management Committee elects to retain the cash on the Pre-Maturity Liquidity Ledger in order to provide liquidity for any future Series of Hard Bullet Covered Bonds.

Amounts standing to the credit of the Pre-Maturity Liquidity Ledger following the repayment of the Hard Bullet Covered Bonds as described above may, except where the Management Committee has elected or is required to retain such amounts on the Pre-Maturity Liquidity Ledger, also be used to repay the corresponding Term Advance and distribute any excess Available Principal Receipts back to the Members on dates other than LLP Payment Dates, subject to the LLP making provision for higher ranking items in the Pre-Acceleration Principal Priority of Payments.

Asset Coverage Test

The Asset Coverage Test is intended to ensure that the LLP can meet its obligations under the Covered Bond Guarantee and senior ranking expenses which will include costs relating to the maintenance, administration and winding-up of the Asset Pool whilst the Covered Bonds are outstanding. Under the LLP Deed, the LLP and its Members (other than the Liquidation Member) must ensure that on each Calculation Date the Adjusted Aggregate Loan Amount will be in an amount equal to or in excess of the aggregate Principal Amount Outstanding of the Covered Bonds as calculated on the relevant Calculation Date. If on any Calculation Date the Asset Coverage Test is not satisfied and such failure is not remedied on or before the next following Calculation Date, the Asset Coverage Test will be breached and the Bond Trustee will serve an Asset Coverage Test Breach Notice on the LLP. The Asset Coverage Test is a formula which adjusts the True Balance of each Loan in the Portfolio and has further adjustments to take account of set-off on a Borrower's current or deposit accounts held with the Seller, set-off associated with drawings made by Borrowers under Flexible Loans and failure by the Seller, in accordance with the Mortgage Sale Agreement,

to repurchase Defaulted Loans or Loans that do not materially comply with the Representations and Warranties on the relevant Transfer Date.

See further "*Summary of the Principal Documents – LLP Deed – Asset Coverage Test*", above.

An Asset Coverage Test Breach Notice will be revoked if, on any Calculation Date falling on or prior to the third Calculation Date following the service of the Asset Coverage Test Breach Notice, the Asset Coverage Test is satisfied and neither a Notice to Pay nor an LLP Acceleration Notice has been served.

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

Amortisation Test

The Amortisation Test is intended to ensure that if, following an Issuer Event of Default, service of an Issuer Acceleration Notice on the Issuer and the service of a Notice to Pay on the LLP (but prior to service on the LLP of an LLP Acceleration Notice and/or the commencement of winding-up proceedings against the LLP and/or realisation of the Security), the assets of the LLP available to meet its obligations under the Covered Bond Guarantee fall to a level where holders of the Covered Bonds may not be repaid, an LLP Event of Default will occur and all amounts owing under the Covered Bonds may be accelerated. Under the LLP Deed, the LLP and its Members (other than the Liquidation Member) must ensure that, on each Calculation Date following an Issuer Event of Default and the service of a Notice to Pay on the LLP, the Amortisation Test Aggregate Loan Amount will be in an amount at least equal to the aggregate Principal Amount Outstanding of the Covered Bonds as calculated on the relevant Calculation Date. The Amortisation Test is a formula which adjusts the True Balance of each Loan in the Portfolio and has further adjustments to take account of Loans in arrears. See further "*Summary of the Principal Documents – LLP Deed – Amortisation Test*", above.

Reserve Fund

The LLP will be required (unless Nationwide's short term unsecured, unsubordinated and unguaranteed debt obligations are rated at least A-1+ by S&P, F-1+ by Fitch and P-1 by Moody's), to establish the Reserve Fund on the GIC Account which will be credited with Available Revenue Receipts up to an amount equal to the Reserve Fund Required Amount. The LLP will not be required to maintain the Reserve Fund following the occurrence of an Issuer Event of Default.

The Reserve Fund will be funded from Available Revenue Receipts after the LLP has paid all of its obligations in respect of items ranking higher than the Reserve Ledger in the Pre-Acceleration Revenue Priority of Payments on each LLP Payment Date.

A Reserve Ledger will be maintained by the Cash Manager to record the balance from time to time of the Reserve Fund. Following the occurrence of an Issuer Event of Default and service of a Notice to Pay on the LLP, amounts standing to the credit of the Reserve Fund will be added to certain other income of the LLP in calculating Available Revenue Receipts.

CASHFLOWS

As described above under "*Credit Structure*", until a Notice to Pay or LLP Acceleration Notice is served on the LLP, the Covered Bonds will be obligations of the Issuer only. The Issuer is liable to make payments when due on the Covered Bonds, whether or not it has received any corresponding payment from the LLP.

This section summarises the Priorities of Payments of the LLP, as to the allocation and distribution of amounts standing to the credit of the LLP Accounts (except for the Covered Bond Swap Collateral Accounts and the Stand-by Covered Bond Swap Collateral Accounts) and their order of priority:

(a) prior to service on the LLP of an Asset Coverage Test Breach Notice, a Notice to Pay or an LLP Acceleration Notice and/or the commencement of winding-up proceedings against the LLP and/or realisation of the Security;

(b) following service of an Asset Coverage Test Breach Notice (and for so long as it has not been revoked);

(c) following service of a Notice to Pay; and

(d) following service of an LLP Acceleration Notice but prior to the realisation of the Security and/or the commencement of winding-up proceedings against the LLP.

If the Transaction Account is closed in accordance with the terms of the Bank Account Agreement, any payment to be made to or from the Transaction Account shall, as applicable, be made to or from the GIC Account, or no payment shall be made at all if such payment is expressed to be from the GIC Account to the Transaction Account.

Allocation and distribution of Available Revenue Receipts prior to the service of an Asset Coverage Test Breach Notice (which has not been revoked), a Notice to Pay or an LLP Acceleration Notice.

Prior to service of an Asset Coverage Test Breach Notice (which has not been revoked), a Notice to Pay or an LLP Acceleration Notice on the LLP and/or the commencement of winding-up proceedings against the LLP and/or realisation of the Security, Available Revenue Receipts will be allocated and distributed as described below.

On the Calculation Date immediately preceding each LLP Payment Date, the LLP or the Cash Manager on its behalf shall calculate:

(a) the amount of Available Principal Receipts and Available Revenue Receipts available for distribution on the immediately following LLP Payment Date and the Reserve Fund Required Amount (if applicable); and

(b) where the Pre-Maturity Test has been breached in respect of a Series of Hard Bullet Covered Bonds, on each Calculation Date falling on the later to occur of the Calculation Date following the breach of the Pre-Maturity Test and the first Calculation Date falling in the eleven months prior to the Final Maturity Date of the relevant Series of Hard Bullet Covered Bonds, whether or not the amount standing to the credit of the Pre-Maturity Liquidity Ledger at such date is less than the Required Redemption Amount for the relevant Series of Hard Bullet Covered Bonds at such date (together with the Required Redemption Amount of all other Series of Hard Bullet Covered Bonds which mature prior to or on the same date as the relevant Series of Hard Bullet Covered Bonds).

Pre-Acceleration Revenue Priority of Payments

On each LLP Payment Date, the LLP or the Cash Manager on its behalf will transfer Available Revenue Receipts from the GIC Account to the Transaction Account (to the extent maintained), in an amount equal to the lower of (a) the amount required to make the payments described below and (b) the amount of Available Revenue Receipts.

Prior to service of an Asset Coverage Test Breach Notice (which has not been revoked), a Notice to Pay or service of an LLP Acceleration Notice on the LLP and/or the commencement of winding-up proceedings against the LLP and/or realisation of the Security, Available Revenue Receipts will be applied by or on behalf of the LLP on each LLP Payment Date (except for amounts due to third parties by the LLP under paragraph (a) or Third Party Amounts, which shall be paid when due) in making the following payments and provisions (the **Pre-Acceleration Revenue Priority of Payments**) (in each case only if and to the extent that payments or provisions of a higher priority have been made in full):

(a) *first*, in or towards satisfaction of any amounts due and payable by the LLP to third parties and incurred without breach by the LLP of the Transaction Documents to which it is a party (and for which payment has not been provided for elsewhere in the relevant Priorities of Payments) and to provide for any such amounts expected to become due and payable by the LLP in the immediately succeeding LLP Payment Period and to pay and discharge any liability of the LLP for taxes;

(b) *second*, in or towards satisfaction *pro rata* and *pari passu* according to the respective amounts thereof of:

(i) any remuneration then due and payable to the Servicer and any costs, charges, liabilities and expenses then due or to become due and payable to the Servicer under the provisions of the Servicing Agreement in the immediately succeeding LLP Payment Period, together with applicable VAT (or other similar taxes) thereon to the extent provided therein;

(ii) any remuneration then due and payable to the Cash Manager and any costs, charges, liabilities and expenses then due or to become due and payable to the Cash Manager under the provisions of the Cash Management Agreement in the immediately succeeding LLP Payment Period, together with applicable VAT (or other similar taxes) thereon to the extent provided therein;

(iii) amounts (if any) due and payable to the Account Bank (or, as applicable, the Stand-by Account Bank) (including costs) pursuant to the terms of the Bank Account Agreement (or, as applicable, the Stand-by Bank Account Agreement), together with applicable VAT (or other similar taxes) thereon to the extent provided therein;

(iv) amounts due and payable to the Corporate Services Provider pursuant to the terms of the Corporate Services Agreement together with applicable VAT (or other similar taxes) thereon as provided therein;

(v) amounts (if any) due and payable to the FSA in respect of fees owed to the FSA under the RCB Regulations (other than the initial registration fees) together with applicable VAT (or other similar taxes) thereon; and

(vi) amounts due and payable to the Asset Monitor pursuant to the terms of the Asset Monitor Agreement (other than the amounts referred to in paragraph (i) below), together with applicable VAT (or other similar taxes) thereon to the extent provided therein;

(c) *third*, in or towards payment *pro rata* and *pari passu* of any amount due to the Interest Rate Swap Provider (including any termination payment due and payable by the LLP under the Interest Rate

Swap Agreement (but excluding any Excluded Swap Termination Amount)) pursuant to the terms of the Interest Rate Swap Agreement;

(d) *fourth,* in or towards payment on the LLP Payment Date or to provide for payment on such date in the future of such proportion of the relevant payment falling due in the future as the Cash Manager may reasonably determine (and in the case of any such payment or provision, after taking into account any provisions previously made and any amounts receivable from the Interest Rate Swap Provider under the Interest Rate Swap Agreement and, if applicable, any amounts (other than principal or in respect of Swap Collateral which does not constitute Swap Collateral Available Amounts) receivable from a Covered Bond Swap Provider under the relevant Covered Bond Swap Agreement on the LLP Payment Date or such date in the future as the Cash Manager may reasonably determine), of

(i) any amounts due or to become due and payable to the Covered Bond Swap Providers (other than in respect of principal under the Basis Covered Bond Swaps) *pro rata* and *pari passu* in respect of each relevant Covered Bond Swap (including any termination payment (other than in relation to principal) due and payable by the LLP under the relevant Covered Bond Swap Agreement, but excluding any Excluded Swap Termination Amount) (except to the extent that such amounts have been paid out of any premiums received from the relevant replacement Swap Providers) pursuant to the terms of the relevant Covered Bond Swap Agreements; and

(ii) if the LLP is required to make a deposit to the Pre-Maturity Liquidity Ledger in accordance with Clause 12.8 above, towards a credit to the GIC Account with a corresponding credit to that Ledger of an amount up to but not exceeding the difference between:

(A) the Required Redemption Amount as calculated on the immediately preceding Calculation Date for the relevant Series of Hard Bullet Covered Bonds; and

(B) any amounts standing to the credit of the Pre-Maturity Liquidity Ledger on the immediately preceding Calculation Date after deducting from that Ledger the Required Redemption Amounts of all other Series of Hard Bullet Covered Bonds as calculated on that Calculation Date which mature prior to or on the same date as the relevant Series of Hard Bullet Covered Bonds;

(e) *fifth,* in or towards any amounts due to become due and payable (excluding principal amounts), *pro rata* and *pari passu* in respect of each relevant Term Advance to the Issuer pursuant to the terms of the Intercompany Loan;

(f) *sixth,* if a Servicer Event of Default has occurred, all remaining Available Revenue Receipts to be credited to the GIC Account (with a corresponding credit to the Revenue Ledger) until such Servicer Event of Default is either remedied by the Servicer or waived by the Security Trustee or a new servicer is appointed to service the Portfolio (or the relevant part thereof);

(g) *seventh*, in or towards a credit to the Reserve Ledger on the GIC Account of an amount up to but not exceeding the amount by which the Reserve Fund Required Amount exceeds the existing balance on the Reserve Ledger as calculated on the immediately preceding Calculation Date;

(h) *eighth*, payment *pro rata* and *pari passu* in accordance with the respective amounts thereof of any Excluded Swap Termination Amounts due and payable by the LLP under the Covered Bond Swap Agreements and the Interest Rate Swap Agreement;

(i) *ninth*, in or towards payment *pro rata* and *pari passu* in accordance with the respective amounts thereof of any indemnity amount due to the Asset Monitor pursuant to the Asset Monitor Agreement,

and any indemnity amount due to the Members and if Nationwide is not then a Member of the LLP, towards repayment of the Issuer Subordinated Loan pursuant to the LLP Deed;

(j) *tenth*, in or towards payment of Deferred Consideration due to the Seller for the transfer of the Loans and their Related Security to the LLP, to pay all remaining Available Revenue Receipts (except for an amount equal to the fee payable to the Liquidation Member in accordance with (j) and an amount equal to the profit to be paid to the Members in accordance with (l) below) to the Seller;

(k) *eleventh*, in or towards payment of the fee due to the Liquidation Member; and

(l) *twelfth*, towards payment *pro rata* and *pari passu* to the Members of a certain sum (specified in the LLP Deed) as their profit for their respective interests as Members in the LLP,

provided that if an LLP Payment Date is not the same as an Interest Payment Date, Available Revenue Receipts will be applied initially on the Interest Payment Date in payment of any amount due to the Covered Bond Swap Providers under paragraph (d)(i) above but only to the extent that adequate provision is made for any payments of a higher priority to be made in full on the immediately succeeding LLP Payment Date.

Any amounts received by the LLP under the Interest Rate Swap Agreement on or after the LLP Payment Date but prior to the next following LLP Payment Date will be applied, together with any provision for such payments made on any preceding LLP Payment Date, to make payments (other than in respect of principal) due and payable *pro rata* and *pari passu* in respect of each relevant Covered Bond Swap under the Covered Bond Swap Agreements or, as the case may be, in respect of each relevant Term Advance under the Intercompany Loan Agreement unless an Asset Coverage Test Breach Notice has been served and not been revoked or otherwise to make provision for such payments on such date in the future of such proportion of the relevant payment falling due in the future as the Cash Manager may reasonably determine.

Any amounts (other than in respect of principal but excluding Swap Collateral which does not constitute Swap Collateral Available Amounts) received by the LLP under a Covered Bond Swap on or after the LLP Payment Date but prior to the next following LLP Payment Date will be applied, together with any provision for such payments made on any preceding LLP Payment Date, to make payments (other than principal) due and payable *pro rata* and *pari passu* in respect of each relevant Term Advance under the Intercompany Loan Agreement or otherwise to make provision for such payments on such date in the future of such proportion of the relevant payment falling due in the future of such proportion of the relevant payment falling due in the future as the Cash Manager may reasonably determine unless an Asset Coverage Test Breach Notice has been served and not been revoked.

Any amounts received under the Interest Rate Swap Agreement and any amounts (other than in respect of principal but excluding Swap Collateral which does not constitute Swap Collateral Available Amounts) received under the Covered Bond Swap Agreements on the LLP Payment Date or on any date prior to the next succeeding LLP Payment Date which are not put towards a payment or provision in accordance with paragraph (d) above or the preceding two paragraphs will be credited to the Revenue Ledger on the GIC Account and applied as Available Revenue Receipts on the next succeeding LLP Payment Date.

If any Excess Hedge Collateral is held or received by the LLP at any time, such amounts will be paid on their due date to the applicable Covered Bond Swap Provider in accordance with the terms of the applicable Covered Bond Swap Agreement.

Allocation and Distribution of Principal Receipts prior to service of a Notice to Pay

Prior to service on the LLP of an Asset Coverage Test Breach Notice (which has not been revoked), a Notice to Pay or an LLP Acceleration Notice and/or the commencement of winding-up proceedings against the LLP and/or realisation of the Security, Principal Receipts will be allocated and distributed as described below.

On each Calculation Date, the LLP or the Cash Manager on its behalf will calculate the amount of Available Principal Receipts available for distribution on the immediately following LLP Payment Date.

On each LLP Payment Date, the LLP or the Cash Manager on its behalf will transfer funds from the GIC Account to the Transaction Account (to the extent maintained), in an amount equal to the lower of (a) the amount required to make the payments or credits described below and (b) the amount of all Available Principal Receipts standing to the credit of the GIC Account.

If an LLP Payment Date is the same as an Interest Payment Date, then the distribution of Available Principal Receipts under the Pre-Acceleration Principal Priority of Payments will be delayed until the Issuer has made scheduled interest and/or principal payments on that Interest Payment Date unless payment is made by the LLP directly to the Bond Trustee (or the Principal Paying Agent at the direction of the Bond Trustee).

Pre-Acceleration Principal Priority of Payments

Prior to service on the LLP of an Asset Coverage Test Breach Notice (which has not been revoked), a Notice to Pay or an LLP Acceleration Notice and/or the commencement of winding-up proceedings against the LLP and/or realisation of the Security, all Available Principal Receipts (other than Cash Capital Contributions made from time to time by the Seller in its capacity as a Member) will be applied by or on behalf of the LLP on each LLP Payment Date in making the following payments and provisions (the **Pre-Acceleration Principal Priority of Payments**):

(a) *first*, if the Pre-Maturity Test has been failed by the Issuer in respect of any Series of Hard Bullet Covered Bonds, to credit all Principal Receipts to the Pre-Maturity Liquidity Ledger in an amount up to but not exceeding the difference between:

(i) the Required Redemption Amount calculated on the immediately preceding Calculation Date for the relevant Series of Hard Bullet Covered Bonds; and

(ii) any amounts standing to the credit of the Pre-Maturity Liquidity Ledger on the immediately preceding Calculation Date after deducting from that Ledger the Required Redemption Amount of all other Hard Bullet Covered Bonds, as calculated on that Calculation Date, which mature prior to or on the same date as the relevant Series of Hard Bullet Covered Bonds,

(b) *second*, to acquire New Loans and their Related Security offered to the LLP by the Seller in accordance with the terms of the Mortgage Sale Agreement in an amount sufficient to ensure that taking into account the other resources available to the LLP, the LLP is in compliance with the Asset Coverage Test and thereafter to acquire Substitution Assets;

(c) *third*, to deposit the remaining Principal Receipts in the GIC Account (with a corresponding credit to the Principal Ledger) in an amount sufficient to ensure that taking into account the other resources available to the LLP, the LLP is in compliance with the Asset Coverage Test;

(d) *fourth*, in or towards repayment on the LLP Payment Date (or to provide for repayment on such date in the future of such proportion of the relevant payment falling due in the future as the Cash Manager may reasonably determine) of the corresponding Term Advance related to such Series of Covered Bonds by making the following payments:

(i) the amounts (in respect of principal) due or to become due and payable to the relevant Covered Bond Swap Providers *pro rata* and *pari passu* in respect of each relevant Basis Covered Bond Swap (including any termination payment (relating solely to principal) due and payable by the LLP under the relevant Covered Bond Swap Agreements, but excluding any Excluded Swap Termination Amount) (except to the extent that such amounts have been

paid out of any premiums received from the relevant replacement Swap Providers) in accordance with the terms of the relevant Covered Bond Swap Agreement; and

(ii) (where appropriate, after taking into account any amounts in respect of principal receivable from a Covered Bond Swap Provider on the LLP Payment Date or such date in the future as the Cash Manager may reasonably determine) the amounts (in respect of principal) due or to become due and payable to the Issuer *pro rata* and *pari passu* in respect of each relevant Term Advance,

(e) *fifth*, subject to complying with the Asset Coverage Test, to make a Capital Distribution to each Member (other than the Liquidation Member) or, if Nationwide is not then a Member of the LLP, towards repayment of the Issuer Subordinated Loan by way of distribution of its equity in the LLP in accordance with the LLP Deed.

Unless an Asset Coverage Test Breach Notice has been served and not been revoked, any amounts in respect of principal received by the LLP under a Covered Bond Swap on or after the LLP Payment Date but prior to the next following LLP Payment Date will be applied, together with any provision for such payments made on any preceding LLP Payment Date, (provided that all principal amounts outstanding under the related Series of Covered Bonds which have fallen due for repayment on such date have been repaid in full by the Issuer), to make payments in respect of principal due and payable to the Issuer in respect of the corresponding Term Advance under the Intercompany Loan Agreement or otherwise to make provision for such payments on such date in the future of such proportion of the relevant payment falling in the future as the Cash Manager may reasonably determine.

Any amounts of principal received under the Covered Bond Swap Agreements on the LLP Payment Date or any date prior to the next succeeding LLP Payment Date which are not put towards a payment or provision in accordance with paragraph (d) above or the preceding paragraph will be credited to the Principal Ledger on the GIC Account and applied as Available Principal Receipts on the next succeeding LLP Payment Date.

Allocation and distribution of Available Revenue Receipts and Available Principal Receipts following service of an Asset Coverage Test Breach Notice

At any time after service on the LLP of an Asset Coverage Test Breach Notice (which has not been revoked), but prior to service of a Notice to Pay or service of an LLP Acceleration Notice and/or the commencement of winding-up proceedings against the LLP and/or realisation of the Security, all Available Revenue Receipts and Available Principal Receipts will continue to be applied in accordance with the Pre-Acceleration Revenue Priority of Payments and the Pre-Acceleration Principal Priority of Payments save that, whilst any Covered Bonds remain outstanding, no moneys will be applied under paragraphs (e), (i) (to the extent only that such amounts are payable to the Members), (j) or (l) of the Pre-Acceleration Revenue Priority of Payments or paragraphs (b), (d)(ii) or (e) of the Pre-Acceleration Principal Priority of Payments.

Allocation and Distribution of Available Revenue Receipts and Available Principal Receipts following service of a Notice to Pay

At any time after service of a Notice to Pay on the LLP, but prior to service of an LLP Acceleration Notice and/or the commencement of winding-up proceedings against the LLP, all Available Revenue Receipts and Available Principal Receipts (other than Third Party Amounts) will be applied as described below under "*Guarantee Priority of Payments*".

On each LLP Payment Date, the LLP or the Cash Manager on its behalf will transfer Available Revenue Receipts and Available Principal Receipts from the Revenue Ledger, the Reserve Ledger, the Principal Ledger or the Capital Account Ledger, as the case may be, to the Payment Ledger on the GIC Account, in an amount equal to the lower of (a) the amount required to make the payments set out in the Guarantee Priority

of Payments and (b) the amount of all Available Revenue Receipts and Available Principal Receipts standing to the credit of such ledgers on the GIC Account.

The LLP created and maintains ledgers for each Series of Covered Bonds and record amounts allocated to such Series of Covered Bonds in accordance with paragraph (e) of the Guarantee Priority of Payments below, and such amounts, once allocated, will only be available to pay amounts due under the Covered Bond Guarantee and amounts due under the Covered Bond Swap in respect of the relevant Series of Covered Bonds on the scheduled repayment dates thereof.

Guarantee Priority of Payments

If a Notice to Pay is served on the LLP in connection with the Pre-Maturity Test (as set out in the LLP Deed), the LLP shall on the relevant Final Maturity Date apply all moneys standing to the credit of the Pre-Maturity Liquidity Ledger (and transferred to the Transaction Account on the relevant LLP Payment Date) to repay the relevant Series of Hard Bullet Covered Bonds in accordance with the LLP Deed (as described in "*Credit Structure – Pre-Maturity Liquidity*"). Subject thereto, on each LLP Payment Date after the service of a Notice to Pay on the LLP (but prior to the occurrence of an LLP Event of Default), the LLP or the Cash Manager on its behalf will apply Available Revenue Receipts and Available Principal Receipts to make the following payments and provisions in the following order of priority (the **Guarantee Priority of Payments**) (in each case only if and to the extent that payments or provisions of a higher priority have been made in full):

(a) *first*, in or towards satisfaction *pro rata* and *pari passu* according to the respective amounts thereof of:

(i) all amounts due and payable or to become due and payable to the Bond Trustee in the immediately succeeding LLP Payment Period under the provisions of the Trust Deed together with interest and applicable VAT (or other similar taxes) thereon as provided therein; and

(ii) all amounts due and payable or to become due and payable to the Security Trustee in the immediately succeeding LLP Payment Period under the provisions of the Deed of Charge together with interest and applicable VAT (or other similar taxes) thereon as provided therein;

(b) *second*, in or towards satisfaction *pro rata* and *pari passu* according to the respective amounts thereof of:

(i) any remuneration then due and payable to the Agents under the provisions of the Agency Agreement together with applicable VAT (or other similar taxes) thereon as provided therein; and

(ii) any amounts then due and payable by the LLP to third parties and incurred without breach by the LLP of the Transaction Documents to which it is a party (and for which payment has not been provided for elsewhere) and to provide for any such amounts expected to become due and payable by the LLP in the immediately succeeding LLP Payment Period and to pay or discharge any liability of the LLP for taxes;

(c) *third*, in or towards satisfaction *pro rata* and *pari passu* according to the respective amounts thereof of:

(i) any remuneration then due and payable to the Servicer and any costs, charges, liabilities and expenses then due or to become due and payable to the Servicer in the immediately

succeeding LLP Payment Period under the provisions of the Servicing Agreement together with applicable VAT (or other similar taxes) thereon to the extent provided therein;

(ii) any remuneration then due and payable to the Cash Manager and any costs, charges, liabilities and expenses then due or to become due and payable to the Cash Manager in the immediately succeeding LLP Payment Period under the provisions of the Cash Management Agreement, together with applicable VAT (or other similar taxes) thereon to the extent provided therein;

(iii) amounts (if any) due and payable to the Account Bank (or, as applicable, the Stand-by Bank Account) (including costs) pursuant to the terms of the Bank Account Agreement (or, as applicable, the Stand-by Bank Account Agreement), together with applicable VAT (or other similar taxes) thereon to the extent provided therein;

(iv) amounts due and payable to the Corporate Services Provider pursuant to the Corporate Services Agreement together with applicable VAT (or similar taxes) thereon as provided therein;

(v) amounts (if any) due and payable to the FSA under the RCB Regulations (other than the initial registration fees) together with applicable VAT (or other similar taxes) thereon; and

(vi) amounts due and payable to the Asset Monitor (other than the amounts referred to in paragraph (j) below) pursuant to the terms of the Asset Monitor Agreement, together with applicable VAT (or other similar taxes) thereon as provided therein;

(d) *fourth*, in or towards satisfaction *pro rata* and *pari passu* according to the respective amounts thereof, of any amounts due and payable to the Interest Rate Swap Provider (including any termination payment due and payable by the LLP under the Interest Rate Swap Agreement but excluding any Excluded Swap Termination Amount) pursuant to the terms of the Interest Rate Swap Agreements;

(e) *fifth*, to pay *pro rata* and *pari passu* according to the respective amounts thereof, of:

(i) the amounts due and payable to the relevant Covered Bond Swap Provider (other than in respect of principal under the Basis Covered Bond Swaps) *pro rata* and *pari passu* in respect of each relevant Series of Covered Bonds (including any termination payment (other than in respect of principal) due and payable by the LLP under the relevant Covered Bond Swap Agreement but excluding any Excluded Swap Termination Amount) in accordance with the terms of the relevant Covered Bond Swap Agreement; and

(ii) to the Bond Trustee or (if so directed by the Bond Trustee) the Principal Paying Agent on behalf of the holders of the Covered Bonds *pro rata* and *pari passu* Scheduled Interest that is Due for Payment (or will become Due for Payment in the immediately succeeding LLP Payment Period) under the Covered Bond Guarantee in respect of each Series of Covered Bonds,

provided that if the amount available for distribution under this paragraph (e) (excluding any amounts received from the Covered Bond Swap Provider) would be insufficient to pay the Sterling Equivalent of the Scheduled Interest that is Due for Payment in respect of each Series of Covered Bonds under (ii) above, the shortfall shall be divided amongst all such Series of Covered Bonds on a *pro rata* basis and the amount payable by the LLP to the relevant Covered Bond Swap Provider in respect of each relevant Series of Covered Bonds under (i) above shall be reduced by the amount of the shortfall applicable to the Covered Bonds in respect of which such payment is to be made;

(f) *sixth*, to pay or provide for *pro rata* and *pari passu* according to the respective amounts thereof, of:

(i) the amounts (in respect of principal under the Basis Covered Bond Swaps) due and payable to the relevant Covered Bond Swap Provider *pro rata* and *pari passu* in respect of each relevant Series of Covered Bonds (including any termination payment (relating solely to principal) due and payable by the LLP under the relevant Covered Bond Swap Agreement but excluding any Excluded Swap Termination Amount) in accordance with the terms of the relevant Covered Bond Swap Agreement; and

(ii) to the Bond Trustee or (if so directed by the Bond Trustee) the Principal Paying Agent on behalf of the holders of the Covered Bonds *pro rata* and *pari passu* Scheduled Principal that is Due for Payment (or will become Due for Payment in the immediately succeeding LLP Payment Period) under the Covered Bond Guarantee in respect of each Series of Covered Bonds,

provided that if the amount available for distribution under this paragraph (f) (excluding any amounts received from the Covered Bond Swap Provider) in respect of the amounts referred to in (f)(i) above would be insufficient to pay the Sterling Equivalent of the Scheduled Principal that is Due for Payment in respect of the relevant Series of Covered Bonds under (f)(ii) above, the shortfall shall be divided amongst all such Series of Covered Bonds on a *pro rata* basis and the amount payable by the LLP to the relevant Covered Bond Swap Provider in respect of each relevant Series of Covered Bonds under (f)(i) above shall be reduced by the amount of the shortfall applicable to the Covered Bonds in respect of which such payment is to be made;

(g) *seventh*, to deposit the remaining moneys in the GIC Account for application on the next following LLP Payment Date in accordance with the priority of payments described in paragraphs (a) to (f) (inclusive) above, until the Covered Bonds have been fully repaid or provided for (such that the Required Redemption Amount has been accumulated in respect of each outstanding Series of Covered Bonds);

(h) *eighth*, in or towards satisfaction *pro rata* and *pari passu* according to the respective amounts thereof of any Excluded Swap Termination Amount due and payable by the LLP to the relevant Swap Provider under the relevant Swap Agreement;

(i) *ninth*, after the Covered Bonds have been fully repaid or provided for (such that the Required Redemption Amount has been accumulated in respect of each outstanding Series of Covered Bonds), any remaining moneys will be applied in and towards repayment in full of amounts outstanding under the Intercompany Loan Agreement;

(j) *tenth*, in or towards satisfaction *pro rata* and *pari passu* according to the respective amounts thereof of any indemnity amount due to the Members (and, if Nationwide is not then a Member of the LLP, towards repayment of the Issuer Subordinated Loan) pursuant to the LLP Deed and certain costs, expenses and indemnity amounts due by the LLP to the Asset Monitor pursuant to the Asset Monitor Agreement; and

(k) *eleventh*, thereafter any remaining moneys will be applied in accordance with the LLP Deed.

Termination payments received in respect of Swaps, premiums received in respect of replacement Swaps

If the LLP receives any termination payment from a Swap Provider in respect of a Swap Agreement, such termination payment will first be used (prior to the occurrence of an LLP Event of Default and service of an LLP Acceleration Notice and/or the commencement of winding-up proceedings against the LLP and/or realisation of the Security) to pay a replacement Swap Provider(s) to enter into a replacement Swap

Agreement(s) with the LLP, unless a replacement Swap Agreement(s) has already been entered into on behalf of the LLP. If the LLP receives any premium from a replacement Swap Provider in respect of a replacement Swap Agreement, such premium will first be used to make any termination payment due and payable by the LLP with respect to the previous Swap Agreement(s), unless such termination payment has already been made on behalf of the LLP.

Application of moneys received by the Security Trustee following the occurrence of an LLP Event of Default and enforcement of the Security, realisation of the Security and/or the commencement of winding-up proceedings against the LLP

Under the terms of the Deed of Charge, subject to Regulations 28 and 29 of the RCB Regulations, all moneys received or recovered by the Security Trustee (or a Receiver appointed on its behalf) (excluding all amounts due or to become due in respect of any Third Party Amounts and Swap Collateral) following the enforcement of the Security, the realisation of the Security and/or the commencement of winding-up proceedings against the LLP will be applied in the following order of priority (the **Post-Enforcement Priority of Payments**) (in each case only if and to the extent that payments or provisions of a higher priority have been made in full):

(a) *first*, in or towards satisfaction *pro rata* and *pari passu* according to the respective amounts thereof of:

(i) all amounts due and payable or to become due and payable to:

(A) the Bond Trustee under the provisions of the Trust Deed together with interest and applicable VAT (or other similar taxes) thereon as provided therein; and

(B) to the Security Trustee and any Receiver appointed by the Security Trustee under the provisions of the Deed of Charge together with interest and applicable VAT (or other similar taxes) thereon to the extent provided therein;

(ii) any remuneration then due and payable to the Agents under or pursuant to the Agency Agreement together with applicable VAT (or other similar taxes) thereon to the extent provided therein;

(iii) amounts in respect of:

(A) any remuneration then due and payable to the Servicer and any costs, charges, liabilities and expenses then due or to become due and payable to the Servicer under the provisions of the Servicing Agreement, together with applicable VAT (or other similar taxes) thereon to the extent provided therein;

(B) any remuneration then due and payable to the Cash Manager and any costs, charges, liabilities and expenses then due or to become due and payable to the Cash Manager under the provisions of the Cash Management Agreement, together with applicable VAT (or other similar taxes) thereon to the extent provided therein;

(C) amounts due to the Account Bank or, as applicable, the Stand-by Account Bank (including costs) pursuant to the terms of the Bank Account Agreement or, as applicable, the Stand-by Bank Account Agreement, together with applicable VAT (or other similar taxes) thereon to the extent provided therein; and

(D) amounts (including costs and expenses) due to the Corporate Services Provider pursuant to the terms of the Corporate Services Agreement together with applicable VAT (or other similar taxes) thereon to the extent provided therein;

(iv) any amounts due and payable to the Interest Rate Swap Provider (including any termination payment (but excluding any Excluded Swap Termination Amounts)) pursuant to the terms of the Interest Rate Swap Agreement;

(v) all amounts due and payable:

(A) to the relevant Covered Bond Swap Provider *pro rata* and *pari passu* in respect of each relevant Series of Covered Bonds (including any termination payment due and payable by the LLP under the relevant Covered Bond Swap Agreement (but excluding any Excluded Swap Termination Amount)) in accordance with the terms of the relevant Covered Bond Swap Agreement; and

(B) under the Covered Bond Guarantee, to the Bond Trustee on behalf of the holders of the Covered Bonds *pro rata* and *pari passu* in respect of interest and principal due and payable on each Series of Covered Bonds,

provided that if the amount available for distribution under this paragraph (v) (excluding any amounts received from any Covered Bond Swap Provider in respect of amounts referred to in (v)(A) above) would be insufficient to pay the Sterling Equivalent of the amounts due and payable under the Covered Bond Guarantee in respect of each Series of Covered Bonds under (v)(B) above, the shortfall shall be divided amongst all such Series of Covered Bonds on a *pro rata* basis and the amount payable by the LLP to the relevant Covered Bond Swap Provider in respect of each relevant Series of Covered Bonds under (v)(A) above shall be reduced by the amount of the shortfall applicable to the Covered Bonds in respect of which such payment is to be made;

(b) *second*, in or towards satisfaction *pro rata* and *pari passu* according to the respective amounts thereof, of any Excluded Swap Termination Amounts due and payable by the LLP to the relevant Swap Provider under the relevant Swap Agreement;

(c) *third*, after the Covered Bonds have been fully repaid, any remaining moneys shall be applied in or towards repayment in full of all amounts outstanding under the Intercompany Loan Agreement;

(d) *fourth*, towards payment of any indemnity amount due to the Members (and, if Nationwide is not then a Member of the LLP, towards repayment of the Issuer Subordinated Loan) pursuant to the LLP Deed; and

(e) *fifth*, thereafter any remaining moneys shall be applied in or towards payment to the Members (and, if Nationwide is not then a Member of the LLP, towards repayment of the Issuer Subordinated Loan) pursuant to the LLP Deed,

The above Post-Enforcement Priority of Payments is subject to the provisions of Regulations 27, 28 and 29 of the RCB Regulations. In particular, costs properly incurred by a receiver, liquidator, provisional liquidator, administrator, administrative receiver or manager of the LLP in relation to:

(i) persons providing services for the benefit of Covered Bondholders (which is likely to include the persons listed in paragraph (a) above (excluding the Swap Providers));

(ii) the Swap Providers in respect of amounts due to them under paragraph (a) above; and

(iii) any other persons providing a loan to the LLP to enable it to meet the claims of Covered Bondholders or the costs of the people described in paragraphs (i) and (ii) above (e.g. liquidity loans),

shall be expenses which shall be payable out of the proceeds of realisation of the Security (in the case of a receivership) or the assets of the LLP (in the case of an administration, winding up or provisional liquidation), and shall rank equally among themselves in priority to all other expenses (including the claims of Covered Bondholders). See further, "*Risk Factors – Expenses of Insolvency officeholders*".

THE PORTFOLIO

The Initial Portfolio and each New Portfolio acquired by the LLP (the **Portfolio**), consists (or will consist) of Loans and their Related Security originated by the Seller (which includes building societies subsumed into the Seller, including Portman Building Society, Staffordshire Building Society and Anglia Building Society) and sold by the Seller to the LLP from time to time, in accordance with the terms of the Mortgage Sale Agreement, as more fully described under "*Summary of the Principal Documents – Mortgage Sale Agreement*".

For the purposes hereof:

Initial Portfolio means the portfolio of Loans and their Related Security referred to in the Mortgage Sale Agreement as at the Initial Programme Date (other than any Loans and their Related Security which have been redeemed in full prior to the First Transfer Date), and all right, title, interest and benefit of the Seller in and to:

(a) all payments of principal and interest (including, for the avoidance of doubt, all Accrued Interest, Arrears of Interest, Capitalised Interest, Capitalised Expenses and Capitalised Arrears) and other sums due or to become due in respect of such Loans and Related Security including, without limitation, the right to demand, sue for, recover and give receipts for all principal moneys, interest and costs and the right to sue on all covenants and any undertakings made or expressed to be made in favour of the Seller under the applicable Mortgage Conditions;

(b) subject where applicable to the subsisting rights of redemption of Borrowers, all Deeds of Consent, Deeds of Postponement, MHA Documentation or any collateral security for the repayment of the relevant Loans;

(c) the right to exercise all the powers of the Seller in relation thereto;

(d) all the estate and interest in the Properties vested in the Seller;

(e) to the extent they are assignable, each Certificate of Title and Valuation Report (in each case where available) and any right of action of the Seller against any solicitor, licensed conveyancer, qualified conveyancer, valuer or other person in connection with any report, valuation, opinion, certificate or other statement of fact or opinion given in connection with such Loans and Related Security, or any part thereof or affecting the decision of the Seller to make or offer to make any such Loan or part thereof;

(f) all rights, title and interests of the Seller (including, without limitation, the proceeds of all claims) to which the Seller is entitled under the Buildings Insurance Policies and the Properties in Possession Policies; and

(g) the Insurance Policies, so far as they relate to the Loans comprised in that portfolio of Loans and their Related Security, including the right to receive the proceeds of any claim.

New Portfolio means in each case the portfolio of New Loans and their Related Security (other than any New Loans and their Related Security which have been redeemed in full prior to the Transfer Date or which do not otherwise comply with the terms of the Mortgage Sale Agreement as at the Transfer Date), particulars of which are set out in the relevant New Portfolio Notice or in a document stored upon electronic media (including, but not limited to, a CD-ROM), and all right, title, interest and benefit of the Seller in and to the rights and assets set out in paragraphs (a) to (g) above.

Characteristics of the loans

Repayment terms

Loans may combine one or more of the features listed in this section. Other customer incentives may be offered with the product including free valuations and payment of legal fees. Additional features such as payment holidays (temporary suspension of monthly payments) and the ability to make overpayments or underpayments were also available to most borrowers prior to 4 March 2010 and under certain circumstances. See "– *Overpayments and underpayments*" and "– *Payment holidays*" below.

Loans are typically repayable on one of the following bases:

- **repayment**: the borrower makes monthly payments of both interest and principal so that, when the loan matures, the full amount of the principal of the loan will have been repaid;

- **interest-only**: the borrower makes monthly payments of interest but not of principal; when the loan matures, the entire principal amount of the loan is still outstanding and is payable typically but not necessarily in one lump sum; and

- a combination of both these options.

In the case of either repayment loans or interest-only loans, the required monthly payment may alter from month to month for various reasons, including changes in interest rates.

For interest-only loans, because the principal is repaid in a lump sum at the maturity of the loan, the borrower is recommended to have some repayment mechanism (such as an investment plan) which is intended to provide sufficient funds to repay the principal at the end of the term.

Principal prepayments may be made in whole or in part at any time during the term of a loan, subject to the payment of any early repayment charges (as described in "– *Early repayment charges*" below). A prepayment of the entire outstanding balance of a loan discharges the mortgage. Any prepayment in full must be made together with all accrued interest, arrears of interest, any unpaid expenses and any applicable repayment fee(s).

Various methods are available to borrowers for making payments on the loans, including:

- direct debit instruction from a bank or building society account,

- standing order from a bank or building society account,

- payments made at Seller's branches; and

- an internal transfer if the borrower has a current account with the Seller.

Interest payments and interest rate setting

The Seller has responded to the competitive mortgage market by developing a range of products with special features that are used to attract new borrowers and retain existing customers. Interest on the loans is charged on one of the following bases and the Seller is able to combine these to suit the requirements of the borrower:

- **Standard variable mortgage rate loans** are loans subject to the Seller's Standard Variable Mortgage Rate (the **SVMR**). The Seller has two SVMR: (i) the Base Mortgage Rate (the **BMR**)

which is capped at 2% above Bank of England base rate; and (ii) the Standard Mortgage Rate (the **SMR**) which was introduced in April 2009 and does not have an interest rate cap.

- **Fixed rate loans** means those loans to the extent that and for such time that the interest rate payable by the borrower on all or part of the outstanding principal balance does not vary and is fixed for a certain period of time by the Seller.

- **Tracker rate loans** means those loans to the extent that and for such time that the interest rate payable by the borrower is linked to a variable rate other than the SMR or the BMR (and shall, for the avoidance of doubt, exclude loans during the period that they are fixed rate loans or standard variable rate loans). The interest rate on tracker rate loans is currently set at a margin by reference to rates set by the Bank of England.

The SVMR and some tracker rates may apply for the life of the loan. Otherwise, each of the above rates is offered for a predetermined period, usually between 2 and 10 years, at the commencement of the loan (the **product period**). At the end of the product period the rate of interest charged will either (a) move to some other interest rate type for a predetermined period or (b) revert to, or remain at, the BMR or the SMR. All loans, the offers for which were made since April 2009 and loans the offers for which were made before that date which have since switched product will revert to the SMR. Loans the offers for which were made before April 2009 and have not switched product will revert to the BMR. In certain instances, early repayment charges are payable by the borrower if the loan is redeemed within a specified period. See "*The Loans – Early repayment charges*" below.

Since 1 May 2001 all mortgages originated by the Seller have had their interest calculated on a daily basis rather than on an annual basis. Any payment of principal by the borrower will immediately reduce the principal balance on which interest will be calculated the following day. Prior to this date, all mortgage products had carried interest calculated on an annual basis.

The following is a summary of the provisions relating to interest rate variations contained in the various Mortgage Conditions:

- **Nationwide** – under the Nationwide mortgage conditions prior to 1999 the Seller may change the interest rate at any time and for any reason. Under the 1999, 2001 and 2008 Nationwide mortgage conditions (the latter of which have superseded all other mortgage conditions in relation to the Seller's mortgage origination business), the Seller can only change the interest rate for a number of specified reasons. These reasons include, by way of example, to reflect (a) a change in the cost of funds used in the Seller's mortgage lending business, (b) a change in the law or regulatory requirements or a decision by a court, (c) a change in the way the property is used or occupied, or (d) a change in the credit risk relating to the loan. The 2008 Nationwide mortgage conditions incorporate additional reasons including to reflect changes in general interest rates, to respond to changes in the rates applying to the Seller's savings business and to maintain the Seller's financial strength for the benefit of its members. It should be noted that the mortgage conditions referred to in this section do not apply in Scotland but that similar conditions apply separately in Scotland.

  If the Seller wishes to increase the interest rate it must first give notice to the borrower of the increase, either by advertisement or personal notice. Under all of the Nationwide mortgage conditions (but not the 1986 Anglia mortgage conditions) the borrower may then repay the loan without paying interest at the increased rate if the borrower gives notice of its intention to repay within one month of the notice of increase and repays the loan (or the part of it which is affected by the increase) together with any early repayment charge and any unpaid interest and expenses within three months of the notice of increase.

- **Portman** – under the 1994 Portman mortgage conditions the Seller may vary the interest rate at any time and for any reason. Any increase in the interest rate is required to be publicised in accordance

with the requirements of the Portman Building Society Rules. However, following a transfer of the mortgage, the Rules cease to apply and an increase in the interest rate will not come into effect until notice of the increase is served on the borrower in writing or given to the borrower by such alternative method as may have been notified to the borrower prior to the transfer.

Under the post-1995 Portman mortgage conditions the Seller can vary the interest rate for a number of specified reasons. These reasons include, for example, to reflect changes in law or in regulatory requirements or where there has been or it is reasonably expected that there will be a change in the cost of the funds the Seller uses in its secured lending business (or alternatively in the case of the 1995 to 1997 Portman mortgage conditions if there has been or it is reasonably expected that there will be a general change in the rates of interest applicable to secured loans or if the Seller intends at the same time or shortly afterwards to increase the rate of interest paid to its investors or depositors to attract or retain funds). The post-1995 Portman mortgage conditions also contain a separate right for the Seller to vary the interest rate for any other valid reason if (a) under the terms and conditions then applicable to the mortgage the borrower can repay the mortgage debt without paying a repayment fee, or (b) the Seller allows the borrower to repay the debt within two months of the variation without charging the borrower any repayment fee or other costs of repayment which would ordinarily be payable. Under the post-1997 Portman mortgage conditions the borrower is required to be given notice of any change in the interest rate.

The current policy of the Seller is to rely upon the reasons specified in the 2008 Nationwide mortgage conditions in order to change the interest rate applicable to all mortgage loans of the Seller, regardless of the date of origination.

If applicable, the Servicer will also be responsible for setting any variable margins in respect of new Tracker Rate Loans that are sold to the LLP in the future. However, in maintaining, determining or setting these variable margins, except in the limited circumstances as set out in the Servicing Agreement, the Servicer has undertaken to maintain, determine or set the variable margins at a level which is not higher than the variable margins set in accordance with the Seller's policy from time to time. The Seller has a variable base rate cap whereby it has limited its BMR to no more than 2% above the Bank of England base rate at any time. The Seller currently cannot increase the 2% limit on existing BMR loans.

Early repayment charges

The borrower may be required to pay an early repayment charge if certain events occur during the predetermined product period and the loan agreement states that the borrower is liable for early repayment charges and the Seller has not waived or revised its policy with regards the payment of early repayment charges. These events include a full or partial unscheduled repayment of principal, or an agreement between the Seller and the borrower to switch to a different mortgage product. If all or part of the principal owed by the borrower, other than the scheduled monthly payments, is repaid before the end of the product period, the borrower will be liable to pay to the Seller a repayment fee based on a percentage of the amount repaid or switched to another product. If the borrower has more than one product attached to the mortgage, the borrower may choose under which product the principal should be allocated.

The borrower is currently permitted to make an overpayment of up to £500 each month (or in some cases, up to 10% of the loan within a 12 month period) without being required to pay any early repayment charge. This figure may be reviewed from time to time to reflect market conditions. In certain circumstances such as the death of a borrower where a life policy is used to redeem the mortgage and where a critical illness claim redeems or reduces the balance on the mortgage, early repayment charges are usually waived.

If the borrower repays its mortgage during an early redemption charge period to move house, the borrower may not have to pay the charge if the borrower takes out a new loan for the new home and transfers both the balance and the terms of the existing loan to the new home.

Some mortgage products do not include any provisions for the payment of an early repayment charge by the borrower. Early repayment charges will not be included in Revenue Receipts.

Overpayments and underpayments (or flexible payments or payment holidays)

Most loans other than CCA regulated loans (including flexible advances) are subject to a range of options, selected by the borrower, that give the borrower greater flexibility in the timing and amount of payments under each loan. Most loans other than CCA regulated ones (including flexible advances) offer one or more of the features described below, subject to certain conditions and financial limits:

Overpayments – borrowers may either increase their regular monthly payments above the normal monthly payment then applicable or make lump sum payments at any time subject to payment of early repayment charges where appropriate.

Underpayments – where borrowers have previously overpaid, they may reduce their monthly payments below the amount of the applicable monthly payment or make an irregular underpayment. Borrowers are not permitted to make underpayments that exceed the total of previous overpayments less the total of previous underpayments.

Payment holidays – borrowers whose loans were granted prior to 4 March 2010 may apply for a break from making monthly payments, normally up to 12 months subject to, amongst other things, maximum LTV criteria taking into account the revised outstanding principal balance of the loan after such break in instalments, payments under the mortgage being fully up-to-date and the borrower having made at least the last 12 monthly payments prior to the date of application for the payment holiday. An approval of such application and the determination of such period are at the discretion of the Seller. Payment holidays are not permitted in respect of flexible advances.

Cash re-draws or borrow backs – where borrowers have previously overpaid on loans granted prior to 4 March 2010, they may re-draw or borrow back an amount up to the value of those overpayments.

Flexible Loans and Flexible Advances

Flexible loans are a type of loan product that typically incorporates features that give the borrower options (which may be subject to certain conditions) to, among other things, make further drawings on the loan account and/or to overpay or underpay interest and principal in a given month and/or take a payment holiday.

Flexible advances are loans for unrestricted purposes (which may be CCA regulated) offered to borrowers with existing loans (other than a flexible advance) from the Seller which is secured on the same property that secures the borrower's existing loan. Some flexible advances permit the borrower to make further draws up to the fixed credit limit extended under the mortgage conditions at the inception of the flexible advance. Flexible advances ceased to be made available after 1 December 2008.

Further advances

If a borrower wishes to take out a further loan secured by the same mortgage, the borrower will need to make a further advance application and the Seller will use the Lending Criteria applicable to further advances at that time which include, amongst other things, payments under the mortgage being fully up-to-date and the borrower not having missed any of the last 6 monthly payments prior to the date of application for the further advance. Approval of such application is at the discretion of the Seller. All further advances require the postponement of any second charge or standard security.

Some Loans in the Portfolio may have Further Advances made on them prior to their being sold to the LLP and Loans added to the Portfolio in the future may have had Further Advances made on them prior to that time.

If a Loan is subject to a Further Advance after being sold to the LLP, the Seller will be entitled to repurchase the Loan and its Related Security from the LLP or be deemed to have made a Capital Contribution in Kind in consideration of such Further Advance. See further "*Summary of the Principal Documents – Mortgage Sale Agreement*" and "*Summary of the Principal Documents – LLP Deed*".

Product switches

From time to time, borrowers may request or the Servicer may send an offer of a variation in the financial terms and conditions applicable to the borrower's loan. In limited circumstances, if a Loan is subject to a Product Switch as a result of a variation, then the Seller will be required to repurchase the Loan or Loans and their related security from the LLP. Those limited circumstances, are that as at the relevant date, any of the Representations and Warranties in relation to that Loan, as described in "*Summary of the Principal Documents – Mortgage Sale Agreement*", would be breached upon the making of that Product Switch. See further "*Summary of the Principal Documents - Mortgage Sale Agreement*".

Origination channels

The Seller currently derives its mortgage-lending business from its branch network throughout the United Kingdom, through intermediaries and from internet and telephone sales.

The policies and procedures relevant to the origination of the mortgage loan advances are substantially similar to those set out below. It should, however, be noted that the policies and procedures have changed over time and not all of the included mortgage loan advances will have been originated under these policies and procedures.

All loans are prime mortgage loans secured over owner occupied residential property which were originated by Nationwide or another member of the Nationwide Group. A small proportion of historic prime lending (which may be for the purchase of part-residential/part commercial property to be occupied by the borrower) is ineligible for sale to the LLP. Specialist mortgages including buy to let and self-certification mortgage loans secured against residential properties were originated by two wholly owned subsidiaries of the Seller, UCB Home Loans Corporation Limited (**UCBHL**) and the Mortgage Works (UK) plc (**TMW**) but are now only originated by TMW. The mortgages originated by UCBHL and TMW are ineligible for sale to the LLP.

Right-to-buy loans

The Portfolio may include Right to Buy Loans, each being a loan entered into by the relevant borrower as a means to purchase, refinance or improve a residential property from a local authority or other social landlord (each a **landlord**) under the "right to buy schemes" governed by the **right to buy legislation** (being the Housing Act 1985 and the Housing Act 1996 (each as amended and updated from time to time) (in the case of English Mortgages) and the Housing (Scotland) Act 1987 (as amended by the Housing (Scotland) Act 2001 (in the case of Scottish mortgages) or governed by the Housing (Northern Ireland) Order 1983 (as amended) (in the case of Northern Irish mortgages).

Properties sold under the right to buy legislation are sold by the relevant landlord at a discount to market value calculated in accordance with the right to buy legislation. A purchaser must repay a proportion of the discount received or the resale price (the **resale share**) if he or she sells the property within three years (or in the cases where the right to buy was exercised in relation to properties in England and Wales after 18 January 2005, 5 years) (the **RTB disposal period**). Under the right to buy legislation the landlord as Seller obtains a statutory charge (or, in the case of a property in Scotland, a standard security) over the property in respect of the contingent liability of the purchaser under the scheme to repay the resale share.

In Scotland, under the provisions of the Housing (Scotland) Act 1987 (the **1987 Act**), a standard security granted in respect of the resale share ranks immediately after (1) a standard security granted in security of a

loan for the purchase of the property or sums advanced for the purpose of improvements to that property and (2) a standard security over the property granted in security of any other loan where the local authority/social landlord has consented. The 1987 Act does not contain specific provisions obliging the local authority/social landlord to agree to the postponement of the discount security granted in respect of the resale share, but the point is specifically addressed and ranking established by the legislation which as noted specifically ranks any standard security granted in respect of the resale share behind security which is given in respect of a loan for the purchase or improvement of the property. In respect of loans given for any other purpose(s), it is necessary to approach the local authority/social landlord for consent to the security ranking prior to the discount security granted in respect of the resale share, although it should be noted that the 1987 Act does not oblige the local authority/social landlord to grant such consent.

In England the statutory charge ranks senior to other charges including that of any mortgage lender unless (i) the mortgage lender has extended the mortgage loan to the purchaser for the purpose of enabling him to exercise the right to buy or for "approved purposes" under the scheme (including refinancing loans made for the purpose of enabling the exercise of the right to buy and repair works to the property) and is an approved lending institution for the purposes of the Housing Act 1985 and the Housing Act 1996 or (ii) the relevant local authority issues a letter or deed of postponement postponing its statutory charge to that of a mortgage lender. In the case of loans made for approved purposes, the statutory charge is only postponed if the relevant landlord agrees to the postponement but the relevant legislation obliges the landlord to agree to the postponement. However, in practice the lender will need to provide evidence to the relevant landlord as to whether the loan was made for approved purposes.

The Seller is an approved lending institution under the Housing Act 1985 and the Housing Act 1996. The Seller as a matter of policy does not lend during the RTB disposal period above the amount required to purchase such properties (plus legal costs up to £500) unless wholly for an approved purpose under the applicable right to buy legislation. The Seller insists that the relevant landlord's approval for loans for "approved purposes" is in place before making the loan since, until that approval is given, the relevant advance ranks behind the statutory charge. In the case of remortgages, borrowers may in the future be offered the option of paying for insurance cover to benefit the Seller in relation to the risk that a remortgage loan does not have full priority to the statutory charge rather than paying the administrative costs of obtaining the relevant landlord's approval for the postponement of the statutory charge to the remortgage.

Amendments to the Housing Act 1985 introduced by the Housing Act 2004 give the relevant landlord a right of first refusal should the relevant property be disposed of within the first ten years following the exercise of the right to buy (when the right to buy is exercised after 18 January 2005). The consideration payable by the relevant landlord is the value of the property determined, in the absence of agreement between the landlord and the owner, by the district valuer. This right of first refusal may add to the time it takes to dispose of a property where the Seller enforces its security, and the district valuer may determine that the value of the property is lower than that the Seller believes is available in the market.

In Northern Ireland, a similar scheme operates through the Northern Ireland Housing Executive (the **NIHE**), although certain differences apply regarding repayment of discount. The discount covenant charge which is created under the standard terms of the NIHE scheme takes priority immediately after any mortgage securing any amount left outstanding by the purchaser and advanced to him by a lending institution for the purpose of buying his house (and for some other purposes).

In relation to any subsequent charge granted to any lending institution other than the institution which provided the initial loan to buy a house, the NIHE has discretion to postpone its charge to this subsequent charge. Such a subsequent charge would include a charge in favour of a new or subsequent lender if the purchaser were to transfer his initial mortgage to a new or subsequent lender within a period of three years after the purchase of the house or in those cases where the right to buy was exercised after 18 May 2004, 5 years (being the period during which the NIHE may recoup discount pursuant to the discount covenant charge). The discretion is rarely exercised by the NIHE. Considerations in respect of application of the money for approved purposes do not apply in Northern Ireland.

Underwriting

The Seller's underwriting approach is continually developed and enhanced. The Seller currently adopts a system based approach to lending assessment. This assessment is made with reference to three independent components:

(a) Credit score: calculation of propensity to default based on a combination of customer supplied, internal performance and credit bureau data;

(b) Affordability: calculation of an individualised lending amount that reflects the applicant's income net of tax, credit commitments and assumed living expenses, which vary according to income, number of applicants and dependants; and

(c) Policy rules: a range of automated and manually applied rules to decline applications outside Lending Criteria or to set limits on loans which fall within lending criteria.

The underwriting approach returns a decision categorised into "accept", "refer" and "decline". For each decision type, the system also specifies the level of status required. For example, on low risk cases (where risk is defined in terms of score) income verification and payment history requirements may be waived.

Each mortgage case is looked at by an approvals officer. The approval mandates are split between those that operate from regional service centres where the approver can mandate all loans that meet "accept" credit score criteria and a central risk management underwriting unit that reviews, approves and mandates credit score overrides classified as a "refer". A senior risk management committee assesses the credit score levels for "accept", "refer" and "decline" and may adjust the "accept" and "refer" decisions to a "decline" to reflect changing market conditions.

In all cases the approvers will satisfy themselves as to the plausibility of any material information for which there is no independent proof.

Mortgage underwriting decisions are subject to internal monitoring by the Seller to ensure the Seller's procedures and policies regarding underwriting are being followed by staff.

Lending Criteria

Each loan was originated in accordance with the Seller's (or other member of the Nationwide Group's, as applicable) Lending Criteria which were applicable at the time the loan was offered. The Lending Criteria in the case of each loan originated by the Seller (or other member of the Nationwide group) and included in the Portfolio as at the date of this Base Prospectus (or, in the case of Loans originated by a member of the Nationwide group other than Nationwide itself, anticipated to be included in the Portfolio in the future) are the same as, or substantially similar to the criteria described in this section. New Loans may only be included in the Portfolio if they are originated in accordance with the Lending Criteria and are compliant with the Eligibility Criteria as set out in the Mortgage Sale Agreement and summaries above under "*Summary of the Principal Documents – Mortgage Sale Agreement*". However, the Seller retains the right to revise its Lending Criteria from time to time, therefore, the criteria applicable to new loans may not be exactly the same as those currently included.

To obtain a loan, each prospective borrower completes an application form (or submits an application on-line) which includes information about the applicant's income, current employment details, bank account information, current mortgage information, if any, and certain other personal information. The Seller completes a credit reference agency search in all cases against each applicant at their current address and, if necessary, former addresses, which gives details of public information including any county court judgements (or the Scottish or Northern Irish equivalent) and bankruptcy details. Some of the factors currently used in making a lending decision are as follows:

Employment Details

The Seller generally operates the following policy in respect of the verification of a prospective borrower's income details. Under this policy, the Seller categorises prospective borrowers as either "employed" or "self-employed". Proof of income for employed prospective borrowers applying for loans may typically be established by the borrower's most recent monthly payslip and P60. If at the end of the financial year the P60 is not available, the year to date gross income figure from the March payslip may be utilised.

Proof of income for self-employed prospective borrowers may typically be established by:

- A signed accountant's certificate where the applicant has at least 2 full years' accounts. For loans over £500,000, final accounts are required in addition to the accountant's certificate. The latest financial period must not be more than 18 months ago, at the time the case is approved.

- Two years final accounts are acceptable in the case of sole traders instead of an accountant's certificate.

- Inland revenue tax calculations for the last two years, the most recent of which must cover a tax year ended no more than 18 months ago, at the time the case is approved.

The Seller operates a process for certain high quality applicants identified by the lending assessment described under – *Underwriting* above whereby income is accepted as stated by the prospective borrower without further proof, once positive identification of the borrower is provided and the borrower has passed the Seller's credit scoring and other eligibility criteria. The Seller reserves the right to require proof of income where it is deemed appropriate.

1. Valuation

The Seller requires that a valuation of the property be obtained either from a valuer employed by the Seller, an independent firm of professional valuers or an automatic valuation model (**AVM)** supplied by an approved AVM provider. The valuer will provide a mortgage valuation report based on a full inspection or an external inspection report which does not involve entering the property. The person underwriting the mortgage loan reviews the valuation of each property securing the loan.

An AVM is used subject to business rules related to the property type, the LTV ratio, maximum and minimum property values and the AVM achieving an acceptable confidence level. Where a prospective borrower's loan application fails to meet the business rules for AVM's, the property will be valued by an independent valuer.

In addition to the valuation of new house purchase and properties for re-mortgage loan applications by a valuer employed by the Seller, an independent valuer or AVMs, further advances are valued using an indexed valuation of the original valuation based upon the Nationwide House Price Index, or in some case, the Halifax House Price Index (each, an **HPI**), subject to maximum advance and property type business rules and a maximum LTV limit.

Loans valued using borrowers' estimate of value (which were only available prior to June 2008) and HPI are referred to as **loans without independent valuation**.

All aspects of valuation policy and the business rules applied are reviewed periodically.

2. Property types

The Seller applies business rules related to property type, location, purpose/use of property and tenure to determine the eligibility of properties to serve as security for loans. The Eligibility Criteria

for Loans to be included in the Portfolio is restricted to properties used as main residential property for owner occupiers located throughout the United Kingdom, except the Isle of Man, the Isles of Scilly and more remote Scottish Islands.

The following tenures are eligible: freehold (in Scotland, heritable) and leasehold houses, leasehold flats, commonhold and Scottish Ownership. In the case of a loan secured by a leasehold property, the Seller requires that the unexpired term of the lease be at least 30 years (in England) or 50 years (in Scotland and Northern Ireland) from the end of the agreed loan term. Since December 2007 these requirements have included an absolute minimum unexpired lease term of 55 years at the inception of the loan.

3. Loan amount

The Seller's product maximum loan amount is £5,000,000 and a scale of mortgage mandate approval levels is applied. However loans exceeding £2,000,000 are atypical and, in exceptional cases where the amount borrowed exceeds this amount, approval is subject to the approval of a divisional director of the Seller. The Seller has represented and warranted in the Mortgage Sale Agreement that all Loans have a True Balance of less than £1,000,000. Where the True Balance of a Loan in the Portfolio exceeds £1,000,000 the Loan will be repurchased by the Seller.

4. Term

The maximum initial mortgage term is 40 years.

5. Age of applicant

All borrowers in respect of all loans must be aged 18 or over. Since July 2008, all new loans have been restricted to terms that do not extend beyond the eldest applicant's 75th birthday, with some exceptions for existing borrowers already outside this limit.

6. Status of applicant(s)

The maximum loan amount of the loan(s) under the mortgage account is determined by a number of factors, including the applicant's income. In determining income, the Seller includes basic salary along with performance or profit-related pay allowances, mortgage subsidies, pensions, annuities, overtime, bonus, commission, rental income and selected investment income.

The criterion for limited income-verification for certain high quality applicants as identified by the lending assessment described under " – *Underwriting*" above is determined by credit score with a risk based approach adopted to set the most appropriate levels for limited income verification, together with other policy rules. The eligible credit score for limited income verification is weighted towards lower loan-to-value loans and loan to income multiples. A senior risk management committee reviews performance of such loans and determines adjustments to the eligible credit score cut-off from time to time to reflect market conditions. The performance of full and limited income verification is monitored by category of origination with limited income verification loans to date performing better than full income verification.

The affordability calculation, used in all cases, takes the applicants' gross incomes, including prescribed elements of additional and secondary incomes, credit commitments with more than six months remaining, other non-standard outgoings and an allowance for household costs to derive an affordable loan amount.

Where there are two applicants, the Seller adds joint incomes together for the purpose of calculating the applicants' total income.

The Seller, through its central underwriting unit, may exercise discretion within its Lending Criteria in applying those factors that are used to determine the maximum amount an applicant can borrow. Accordingly, these parameters may vary for some mortgage loans. The Seller may take the following into account when applying discretion: credit score result, existing customer relationship, LTV, known changes in circumstances and total income needed to support the loan.

7. Credit history

(a) Credit Search

A credit search is carried out on the two main applicants. Applications may be declined where an adverse credit history (for example, county court judgment (or the Scottish or Northern Irish equivalent), default or bankruptcy notice) is revealed.

(b) Payment History

Subject to the credit score result in some cases the Seller may seek to see the borrowers bank statements and a reference from any existing and/or previous lender. Any reference must satisfy the Seller that the account has been properly conducted and that no history of material arrears exists. The Seller may substitute the reference with the bureau record obtained as a result of the credit search.

8. Scorecard

The Seller uses some of the criteria described here and various other criteria to produce an overall score for the application that reflects a quantitative measure of the risk of advancing the loan. The scorecard has been developed using the Seller's own data and experience of its own mortgage accounts. The lending policies and processes are determined centrally to ensure consistency in the management and monitoring of credit risk exposure. Credit scoring applies statistical analysis to publicly available data, closed user group data obtained from credit reference agencies, Seller's own cross holding data and customer-provided data to assess the likelihood of a mortgage account going into arrears.

The Seller reserves the right to decline an application that has achieved a passing score. It is the Seller's policy to allow only authorised individuals to exercise discretion in granting variances from the scorecard. The Seller does have an appeals process if an applicant believes that his/her application has been unfairly declined.

On a case-by-case basis, and within approved limits as detailed in the Seller's Lending Criteria, the Seller acting as a Reasonable, Prudent Mortgage Lender may have determined that, based upon compensating factors, a prospective borrower that did not strictly qualify under its Lending Criteria at that time warranted an underwriting exception. The Seller may take into account compensating factors including, but not limited to, a low LTV ratio, stable employment and time in residence at the applicant's current residence. New Loans and Further Advances (made prior to their assignment to the LLP or if the Seller decides at a later date to retain such Loans subject to such Further Advances within the Portfolio, after their assignment to the LLP) that the Seller has originated under Lending Criteria that are different from the Lending Criteria set out here may be assigned to the LLP.

Changes to the underwriting policies and the Lending Criteria

The Seller's underwriting policies and Lending Criteria are subject to change within the Seller's sole discretion. Loans and Further Advances that are originated under Lending Criteria that are different from the Lending Criteria set out here may be sold to the LLP.

Selected statistical information on the on the Portfolio for each Series

In respect of each Series of Covered Bonds, statistical information regarding the Loans as of the relevant measurement/testing date in the Portfolio will be set out in the applicable Final Terms. Please note, however, that the information provided is historical and given that New Loans may be added to the Portfolio at any time and accordingly, the statistical information provided at the time of issue may be different to the actual composition of the Portfolio at any given time.

Regulation of the UK Residential Mortgage Market

The Seller is subject to the FSMA, MCOB (and other FSA rules) and the Financial Ombudsman Service, (which is a statutory scheme under the FSMA) and certain other regulatory regimes as described in "*Regulatory changes by the FSA, the OFT and other regulatory authorities*" above.

See also the following risk factors under "*Risk Factors – Risk Factors relating to the LLP – Limited description of the Portfolio – Maintenance of Portfolio*" and "*– Changes to the Lending Criteria of the Seller*".

DESCRIPTION OF THE UK REGULATED COVERED BOND REGIME

This section is only a summary of the UK Covered Bond Regime. Prospective purchasers of Covered Bonds should consider carefully all the information contained in this document, including the information set out below, before making any investment decision.

The Regulated Covered Bonds Regulations 2008 (as amended) (SI 2008/346) (the **RCB Regulations**) and the corresponding implementation provisions, set out in the new RCB Sourcebook to the FSA's Handbook (the **RCB Sourcebook**), came into force in the UK on 6 March 2008. In summary, the RCB Regulations implement a legislative framework for UK covered bonds. The framework is intended to meet the requirements set out in Article 22(4) of Directive 85/611 EC on the co-ordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities, as amended (the **UCITS Directive**). In general, covered bonds which are UCITS Directive-compliant benefit from higher prudential investment limits and may be ascribed a preferential risk weighting.

The RCB Regulations and the RCB Sourcebook include various requirements related to issuers, asset pool owners, pool assets and the contractual arrangements made in respect of such assets. In this regard, issuers and owners have various initial and ongoing obligations under the RCB Regulations and the RCB Sourcebook and are responsible for ensuring they comply with them. In particular, issuers are required to (amongst other things) enter into arrangements with the owner for the maintenance and administration of the asset pool such that certain asset record-keeping obligations and asset capability and quality related requirements are met and notify the FSA of various matters (including any regulated covered bonds it issues, the assets in the asset pool, matters related to its compliance with certain regulations and any proposed material changes). Owners are required to (amongst other things) notify the FSA of various matters (including any proposed transfer of ownership of the asset pool) and, on insolvency of the issuer, make arrangements for the maintenance and administration of the asset pool (similar to the issuer obligations described above). While the framework has been shaped to generally accommodate existing UK covered bond structures (such as that contemplated in respect of Covered Bonds previously issued under the Programme), certain changes are required to such structures to meet the requirements of the RCB Regulations.

The UK Financial Services Authority (the **FSA**) will perform certain supervision and enforcement related tasks in respect of the new regime, including admitting issuers, covered bonds or programmes of covered bonds to the relevant registers and monitoring compliance with ongoing requirements. To assist it with these tasks, the FSA has certain powers under the RCB Regulations. In particular, in certain circumstances the FSA may direct the winding-up of an owner, remove an issuer from the register of issuers and/or impose a financial penalty of such amount as it considers appropriate in respect of an issuer or owner. Moreover, as the body which regulates the financial services industry in the UK, the FSA may take certain actions in respect of issuers using its general powers under the UK regulatory regime (including restricting an issuer's ability to transfer further assets to the asset pool).

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

See also "*Risk Factors – UK regulated covered bond regime*" and "*– Expenses of insolvency officeholders*".

DESCRIPTION OF LIMITED LIABILITY PARTNERSHIPS

Since 6 April 2001 it has been possible to incorporate a limited liability partnership in England, Wales and Scotland (but not Northern Ireland) under the Limited Liability Partnership Act 2000 (the **LLPA 2000**). Limited liability partnerships are legal entities that provide limited liability to the members of a limited liability partnership combined with the benefits of the flexibility afforded to partnerships and the legal personality afforded to companies.

Corporate characteristics

A limited liability partnership is more like a company than a partnership. A limited liability partnership is a body corporate with its own property and liabilities, separate from its members. Like shareholders in a limited company, the liability of the members of a limited liability partnership is limited to the amount of their capital because it is a separate legal entity and when the members decide to enter into a contract, they bind the limited liability partnership in the same way that directors bind a company. Members may be liable for their own negligence and other torts or delicts, like company directors, if they have assumed a personal duty of care and have acted in breach of that duty. Third parties can assume that members, like company directors, are authorised to act on behalf of the limited liability partnership.

The provisions of the Companies Act 1985 and the Insolvency Act 1986 have been modified by the Limited Liability Partnerships Regulations 2001 (as amended by the Limited Liability Partnerships (Amendment) Regulation 2005) so as to apply most of the insolvency and winding-up procedures for companies equally to a limited liability partnership and its members. As a distinct legal entity a limited liability partnership can grant fixed and floating security over its assets and a limited liability partnership will survive the insolvency of any of its members. An administrator or liquidator of an insolvent member would be subject to the terms of the members' agreement relating to the limited liability partnership but a liquidator of an insolvent member may not take part in the administration of the limited liability partnership or its business.

Limited liability partnerships must file annual returns and audited annual accounts at Companies House for each financial year in the same way as companies.

Partnership characteristics

A limited liability partnership retains certain characteristics of a partnership. It has no share capital and there are no capital maintenance requirements. The members are free to agree how to share profits, who is responsible for management and how decisions are made, when and how new members are appointed and the circumstances in which its members retire. The members' agreement is a private document and there is no obligation to file it at Companies House.

Taxation

A limited liability partnership which carries on a trade or business with a view to profit (and which is not the subject of certain insolvency proceedings) is, generally speaking, treated as a partnership for corporation tax purposes. As such, the members of a limited liability partnership, and not the limited liability partnership itself, are subject to corporation tax in relation to the business of the limited liability partnership in broadly the same way that the members of a partnership are subject to corporation tax in relation to the business of that partnership.

BOOK-ENTRY CLEARANCE SYSTEMS

The information set out below is subject to any change in or reinterpretation of the rules, regulations and procedures of the Clearing Systems currently in effect. The information in this section concerning the Clearing Systems has been obtained from sources that the Issuer and the LLP believe to be reliable, but none of the Issuer, the LLP, the Bond Trustee nor any Dealer takes any responsibility for the accuracy thereof. Investors wishing to use the facilities of any of the Clearing Systems are advised to confirm the continued applicability of the rules, regulations and procedures of the relevant Clearing System. None of the Issuer, the LLP nor any other party to the Agency Agreement will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial ownership interests in the Covered Bonds held through the facilities of any Clearing System or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

Book-entry Systems

DTC

DTC has advised the Issuer that it is a limited purpose trust company organised under the New York Banking Law, a "banking organisation" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code and a "clearing agency" registered pursuant to Section 17A of the Exchange Act. DTC holds and provides asset servicing for securities that its participants (**Direct Participants**) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities through electronic computerised book-entry transfers and pledges between Direct Participants' accounts, thereby eliminating the need for physical movement of securities certificates. Direct Participants include both US and non-US securities brokers and dealers, banks, trust companies, clearing corporations and certain other organisations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (**DTCC**). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation (NSCC, GSCC, MBSCC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC and the National Association of Securities Dealers, Inc. Access to the DTC System is also available to others such as securities brokers and dealers, banks, trust companies and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (**Indirect Participants**). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of DTC Covered Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the DTC Covered Bonds on DTC's records. The ownership interest of each actual purchaser of each Covered Bond (**Beneficial Owner**) is in turn to be recorded on the Direct and Indirect Participant's records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the DTC Covered Bonds are to be accomplished by entries made on the books of Direct Participants or Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in DTC Covered Bonds, except in the event that use of the book-entry system for the DTC Covered Bonds is discontinued.

To facilitate subsequent transfers, all DTC Covered Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. or such other nominee as may be requested by an authorised representative of DTC. The deposit of DTC Covered Bonds with DTC and their

registration in the name of Cede & Co. or such other nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the DTC Covered Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such DTC Covered Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to DTC. If less than all of the DTC Covered Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to DTC Covered Bonds unless authorised by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the DTC Covered Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the DTC Covered Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorised representative of DTC. DTC's practice is to credit Direct Participants' accounts, upon DTC's receipt of funds and corresponding detail information from the Issuer or the Principal Paying Agent, on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name", and will be the responsibility of such Direct Participants or Indirect Participants, as applicable, and not of DTC or its nominee, the Principal Paying Agent or the Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorised representative of DTC) is the responsibility of Issuer or Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct Participants and Indirect Participants.

Under certain circumstances, DTC will exchange the DTC Covered Bonds for Registered Definitive Covered Bonds, which it will distribute to its Direct Participants or Indirect Participants in accordance with their proportionate entitlements and which, if representing interests in a Rule 144A Global Covered Bond, will be legended as set forth under "*Subscription and Sale and Transfer and Selling Restrictions*".

Since DTC may only act on behalf of Direct Participants, who in turn act on behalf of Indirect Participants, any Beneficial Owner desiring to pledge DTC Covered Bonds to persons or entities that do not participate in DTC, or otherwise take actions with respect to such DTC Covered Bonds, will be required to withdraw its Registered Covered Bonds from DTC as described below.

Euroclear and Clearstream, Luxembourg

Euroclear and Clearstream, Luxembourg each holds securities for its customers and facilitates the clearance and settlement of securities transactions by electronic book-entry transfer between their respective account holders. Euroclear and Clearstream, Luxembourg provide various services including safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Euroclear and Clearstream, Luxembourg also deal with domestic securities markets in several countries through established depository and custodial relationships. Euroclear and Clearstream,

Luxembourg have established an electronic bridge between their two systems across which their respective participants may settle trades with each other.

Euroclear and Clearstream, Luxembourg customers are world-wide financial institutions, including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations. Indirect access to Euroclear and Clearstream, Luxembourg is available to other institutions that clear through or maintain a custodial relationship with an account holder of either system.

Book-entry Ownership of and Payments in respect of DTC Covered Bonds

The Issuer may apply to DTC in order to have any Tranche of Covered Bonds represented by a Registered Global Covered Bond accepted in its book-entry settlement system. Upon the issue of any such Registered Global Covered Bond, DTC or its custodian will credit, on its internal book-entry system, the respective nominal amounts of the individual beneficial interests represented by such Registered Global Covered Bond to the accounts of persons who have accounts with DTC. Such accounts initially will be designated by or on behalf of the relevant Dealer. Ownership of beneficial interests in such a Registered Global Covered Bond will be limited to Direct Participants or Indirect Participants, including, in the case of any Regulation S Global Covered Bond, the respective depositaries of Euroclear and Clearstream, Luxembourg. Ownership of beneficial interests in a Registered Global Covered Bond accepted by DTC will be shown on, and the transfer of such ownership will be effected only through, records maintained by DTC or its nominee (with respect to the interests of Direct Participants) and the records of Direct Participants (with respect to interests of Indirect Participants).

Payments in US dollars of principal and interest in respect of a Registered Global Covered Bond accepted by DTC will be made to the order of DTC or its nominee as the registered holder of such Covered Bond. In the case of any payment in a currency other than US dollars, payment will be made to the Exchange Agent on behalf of DTC or its nominee and the Exchange Agent will (in accordance with instructions received by it) remit all or a portion of such payment for credit directly to the beneficial holders of interests in the Registered Global Covered Bond in the currency in which such payment was made and/or cause all or a portion of such payment to be converted into US dollars and credited to the applicable Participants' account.

The Issuer expects DTC to credit accounts of Direct Participants on the applicable payment date in accordance with their respective holdings as shown in the records of DTC unless DTC has reason to believe that it will not receive payment on such payment date. The Issuer also expects that payments by Participants to beneficial owners of Covered Bonds will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers, and will be the responsibility of such Participant and not the responsibility of DTC, the Bond Trustee, the Security Trustee, the Principal Paying Agent, the Registrar or the Issuer. Payment of principal, premium, if any, and interest, if any, on Covered Bonds to DTC is the responsibility of the Issuer.

Transfers of Covered Bonds Represented by Registered Global Covered Bonds

Transfers of any interests in Covered Bonds represented by a Registered Global Covered Bond within DTC, Euroclear and Clearstream, Luxembourg will be effected in accordance with the customary rules and operating procedures of the relevant clearing system. The laws in some States within the United States require that certain persons take physical delivery of securities in definitive form. Consequently, the ability to transfer Covered Bonds represented by a Registered Global Covered Bond to such persons may depend upon the ability to exchange such Covered Bonds for Covered Bonds in definitive form. Similarly, because DTC can only act on behalf of Direct Participants in the DTC system who in turn act on behalf of Indirect Participants, the ability of a person having an interest in Covered Bonds represented by a Registered Global Covered Bond accepted by DTC to pledge such Covered Bonds to persons or entities that do not participate in the DTC system or otherwise to take action in respect of such Covered Bonds may depend upon the ability to exchange such Covered Bonds for Covered Bonds in definitive form. The ability of any holder of Covered Bonds represented by a Registered Global Covered Bond accepted by DTC to resell, pledge or

otherwise transfer such Covered Bonds may be impaired if the proposed transferee of such Covered Bonds is not eligible to hold such Covered Bonds through a Direct Participant or Indirect Participant in the DTC system.

Subject to compliance with the transfer restrictions applicable to the Registered Covered Bonds described under "*Subscription and Sale and Transfer and Selling Restrictions*", cross-market transfers between DTC, on the one hand, and directly or indirectly through Clearstream, Luxembourg or Euroclear accountholders, on the other, will be effected by the relevant clearing system in accordance with its rules and through action taken by the Registrar, the Principal Paying Agent and any custodian (**Custodian**) with whom the relevant Registered Global Covered Bonds have been deposited.

On or after the Issue Date for any Series, transfers of Covered Bonds of such Series between accountholders in Clearstream, Luxembourg and Euroclear and transfers of Covered Bonds of such Series between participants in DTC will generally have a settlement date three business days after the trade date (T+3). The customary arrangements for delivery versus payment will apply to such transfers.

Cross-market transfers between accountholders in Clearstream, Luxembourg or Euroclear and DTC participants will need to have an agreed settlement date between the parties to such transfer. Because there is no direct link between DTC, on the one hand, and Clearstream, Luxembourg and Euroclear, on the other, transfers of interests in the relevant Registered Global Covered Bonds will be effected through the Registrar, the Principal Paying Agent and the Custodian receiving instructions (and, where appropriate, certification) from the transferor and arranging for delivery of the interests being transferred to the credit of the designated account for the transferee. In the case of cross-market transfers, settlement between Euroclear or Clearstream, Luxembourg accountholders and DTC participants cannot be made on a delivery versus payment basis. The securities will be delivered on a free delivery basis and arrangements for payment must be made separately.

DTC, Clearstream, Luxembourg and Euroclear have each published rules and operating procedures designed to facilitate transfers of beneficial interests in Registered Global Covered Bonds among participants and accountholders of DTC, Clearstream, Luxembourg and Euroclear. However, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued or changed at any time. None of the Bond Trustee, the Security Trustee, the Issuer, the LLP, the Agents or any Dealer will be responsible for any performance by DTC, Clearstream, Luxembourg or Euroclear or their respective direct or indirect participants or accountholders of their respective obligations under the rules and procedures governing their operations and none of them will have any liability for any aspect of the records relating to or payments made on account of beneficial interests in the Covered Bonds represented by Registered Global Covered Bonds or for maintaining, supervising or reviewing any records relating to such beneficial interests.

UNITED KINGDOM TAXATION

The comments below are of a general nature based on current United Kingdom law and practice. They relate only to the position of persons who are the absolute beneficial owners of their Covered Bonds and all payments made thereon and may not apply to certain classes of persons such as dealers. They do not necessarily apply where the income is deemed for tax purposes to be income of any other person. The United Kingdom tax treatment of prospective holders of Covered Bonds depends on their individual circumstances and may be subject to change in the future. Any holders of Covered Bonds who are in doubt as to their tax position should consult their professional advisers. The following comments relate only to withholding and do not deal with any other aspect of the United Kingdom taxation treatment that may be applicable to holders of Covered Bonds (including, for instance, income tax, capital gains tax and corporation tax).

Prospective holders of the Covered Bonds should note that the particular terms of issue of any Series of Covered Bonds as specified in the applicable Final Terms may affect the tax treatment of that and any other Series of Covered Bonds and should be treated with appropriate caution. The comments below do not deal with the tax consequences of any substitution of the Issuer in accordance with Condition 14 of the Covered Bonds.

Holders of Covered Bonds who may be liable to taxation in jurisdictions other than the United Kingdom in respect of their acquisition, holding or disposal of Covered Bonds are particularly advised to consult their professional advisers as to whether they are so liable (and, if so, under the laws of which jurisdictions), since the following comments relate only to certain United Kingdom taxation aspects of payments in respect of the Covered Bonds. In particular, holders of Covered Bonds should be aware that they may be liable to taxation under the laws of other jurisdictions in relation to payments in respect of the Covered Bonds even if such payments may be made without withholding or deduction for or on account of taxation under the laws of the United Kingdom.

Payment of Interest by the Issuer on the Covered Bonds

Interest on the Covered Bonds may be paid without withholding or deduction for or on account of United Kingdom income tax where the Covered Bonds are and continue to be listed on a "recognised stock exchange", as defined in section 1005 of the Income Tax Act 2007 (the **ITA**) (the London Stock Exchange is a recognised stock exchange for this purpose).

Securities will be treated as listed on a recognised stock exchange if (and only if) they are admitted to trading on that exchange and either they are included in the United Kingdom Official List (within the meaning of and in accordance with the provisions of Part 6 of the FSMA 2000) or they are officially listed, in accordance with provisions corresponding to those generally applicable in European Economic Area states, in a country outside the United Kingdom in which there is a recognised stock exchange. Provided, therefore, that the Covered Bonds remain so listed, interest on the Covered Bonds will be payable without withholding or deduction for or on account of United Kingdom Tax.

In cases falling outside the exemption described above, interest on the Covered Bonds may be paid under deduction of United Kingdom income tax at the rate of (currently) 20% subject to such relief as may be available, for example under the provisions of any applicable double taxation treaty, or in certain other circumstances.

Payments by the LLP

If the LLP makes any payment in respect of interest on the Covered Bonds (or any other amounts due under the Covered Bonds other than the repayment of amounts subscribed for under the Covered Bonds) such payment may be subject to United Kingdom withholding tax, whether or not the Covered Bonds are listed on

a "recognised stock exchange" within the meaning of section 1005 of the ITA. If payments by the LLP are subject to any withholding or deduction for or on account of tax, the LLP will not be required to pay any additional amounts.

Provision of Information

Covered Bondholders may wish to note that, in certain circumstances, HMRC has power to obtain information (including the name and address of the beneficial owner of the interest) from any person in the UK who either pays or credits interest to, or receives interest for the benefit of, a Covered Bondholder (regardless of whether tax is required to be withheld or deducted from such interest), or who either pays amounts payable on the redemption of the Covered Bonds which are deeply discounted securities for the purposes of the Income Tax (Trading and Other Income) Act 2005 to, or receives amounts for the benefit of, a Covered Bondholder, although HMRC published practice is that it will not exercise its power to require this information in respect of amounts payable on the redemption of Covered Bonds which are deeply discounted securities where such amounts are paid on or before 5 April 2011. Such information may include the name and address of the beneficial owner of the amount payable on redemption. Any information obtained may, in certain circumstances, be exchanged by HMRC with the tax authorities of the jurisdiction in which the Covered Bondholder is resident for tax purposes.

EU Savings Directive

Under EC Council Directive 2003/48/EC on the taxation of savings income, Member States are required to provide to the tax authorities of another Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to, or collected by such a person for, an individual resident in that other Member State or to retain limited types of entities established in that other Member State. However, for a transitional period, Luxembourg and Austria are instead required, subject to certain exceptions, (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). A number of non-EU countries and territories including Switzerland have adopted similar measures (a withholding system in the case of Switzerland). The attention of Covered Bondholders is drawn to Condition 7(e) and page 33 of the Risk Factors.

On 15 September 2008, the European Commission issued a report to the council of the European Union on the operation of the Directive, which included the Commission's advice on the need for changes to the Directive. On 13 November 2008, the European Commission published a more detailed proposal for amendments to the Directive, which included a number of suggested changes. The European Parliament approved an amended version of this proposal on 24 April 2009. If any of those proposed changes are made in relation to the Directive, they may amend or broaden the scope of requirements described above.

US FEDERAL INCOME TAXATION

General

TO ENSURE COMPLIANCE WITH US INTERNAL REVENUE SERVICE CIRCULAR 230, PROSPECTIVE INVESTORS ARE HEREBY NOTIFIED THAT: (A) ANY DISCUSSION OF US FEDERAL TAX ISSUES CONTAINED OR REFERRED TO IN THIS BASE PROSPECTUS IS NOT INTENDED OR WRITTEN TO BE USED, AND CANNOT BE USED BY PROSPECTIVE INVESTORS FOR THE PURPOSE OF AVOIDING PENALTIES THAT MAY BE IMPOSED ON THEM UNDER THE U.S INTERNAL REVENUE CODE; (B) SUCH DISCUSSION IS WRITTEN IN CONNECTION WITH THE PROMOTION OR MARKETING OF THE TRANSACTIONS OR MATTERS ADDRESSED HEREIN; AND (C) PROSPECTIVE INVESTORS SHOULD SEEK ADVICE BASED ON THEIR PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISER.

The following is a summary of certain material US federal income tax consequences of the acquisition, ownership and disposition of Covered Bonds by a US Holder (as defined below). This summary does not address the material US federal income tax consequences of every type of Covered Bond which may be issued under the Programme, and the applicable Final Terms may contain additional or modified disclosure concerning the material US federal income tax consequences relevant to such type of Covered Bonds as are issued thereunder. This summary deals only with purchasers of Covered Bonds that are US Holders, that will hold the Covered Bonds as capital assets, and that acquire Covered Bonds at initial issuance. The discussion does not cover all aspects of US federal income taxation that may be relevant to, or the actual tax effect that any of the matters described herein will have on, the acquisition, ownership or disposition of Covered Bonds by particular investors, and does not address state, local, foreign or other tax laws. In particular, this summary does not discuss all of the tax considerations that may be relevant to certain types of investors subject to special treatment under the US federal income tax laws (such as banks, insurance companies, investors liable for the alternative minimum tax, individual retirement accounts and other tax-deferred accounts, tax-exempt organisations, dealers in securities or currencies, traders in securities that elect to use a mark-to-market method of accounting, persons who have ceased to be US citizens or to be taxed as resident aliens, investors that will hold the Covered Bonds as part of straddles, hedging transactions or conversion transactions for US federal income tax purposes, or whose functional currency is not the US dollar). This discussion also does not address any tax consequences applicable to holders of equity interests in a holder of the Covered Bonds. This discussion applies only to holders of Registered Covered Bonds.

As used herein, the term **US Holder** means a beneficial owner of Covered Bonds that is for US federal income tax purposes, (i) a citizen or resident of the United States, (ii) a corporation, or other entity treated as a corporation, created or organised under the laws of the United States or any State thereof (including the District of Columbia), (iii) an estate the income of which is subject to US federal income tax without regard to its source, or (iv) a trust if a court within the United States is able to exercise primary supervision over the administration of the trust and one or more United States persons have the authority to control all substantial decisions of the trust, or that is otherwise treated as a United States person. The tax consequences to a partner in a partnership holding Covered Bonds will generally depend upon the status of the partner and the activities of the partnership. A partner in a partnership holding Covered Bonds and such partnership should consult their tax adviser regarding the tax consequences of an investment in Covered Bonds.

This summary is based on the tax laws of the United States including the US Internal Revenue Code of 1986 (the **Code**), its legislative history, existing and proposed regulations thereunder (the **Treasury Regulations**), published rulings and court decisions, all as currently in effect and all of which are subject to change or differing interpretations at any time, possibly with retroactive effect.

THE SUMMARY OF US FEDERAL INCOME TAX CONSEQUENCES SET OUT BELOW IS FOR GENERAL INFORMATION ONLY. PROSPECTIVE PURCHASERS SHOULD CONSULT THEIR TAX ADVISERS AS TO THE PARTICULAR TAX CONSEQUENCES TO THEM OF OWNING THE COVERED BONDS, THE APPLICABILITY AND EFFECT OF STATE, LOCAL, FOREIGN AND OTHER TAX LAWS AND POSSIBLE CHANGES IN TAX LAW.

The Issuer generally intends to treat Covered Bonds issued under the Programme as debt, unless otherwise indicated in the applicable Final Terms. Certain Covered Bonds, however, such as Index Linked Covered Bonds, may be treated as equity or other type of financial instrument for US federal income tax purposes. The applicable Final Terms may contain modified disclosure concerning the tax treatment of Covered Bonds to which a treatment other than as debt may apply. The following disclosure applies only to Covered Bonds that are treated as debt for US federal income tax purposes.

Payment of Interest

Interest on a Covered Bond, whether payable in US dollars or a currency, composite currency or basket of currencies other than US dollars (foreign currency interest on a **Foreign Currency Covered Bond**), other than interest on a Discount Covered Bond that is not "qualified stated interest" (each as defined below under "*Original Issue Discount – General*"), will be taxable to a US Holder as ordinary income at the time it is received or accrued, depending on the holder's method of accounting for tax purposes. Interest paid by the Issuer on the Covered Bonds and original issue discount, if any, accrued with respect to the Covered Bonds (as described below under "*Original Issue Discount*") generally will constitute income from sources outside the United States subject to the rules regarding the foreign tax credit allowable to a US Holder. Prospective purchasers should consult their tax advisers concerning the applicability of the foreign credit rules to income attributable to the Covered Bonds.

Original Issue Discount

General

The following is a summary of the principal US federal income tax consequences of the ownership of Covered Bonds issued with original issue discount (**OID**). The following summary does not discuss Covered Bonds that are characterised as contingent payment debt instruments for US federal income tax purposes.

A Covered Bond, other than a Covered Bond with a term of one year or less (a **Short-Term Covered Bond**), will be treated as issued with OID (a **Discount Covered Bond**) if the excess of the Covered Bond's "stated redemption price at maturity" over its issue price is equal to or more than a *de minimis* amount (0.25% of the Covered Bond's stated redemption price at maturity multiplied by the number of complete years to its maturity). An obligation that provides for the payment of amounts other than qualified stated interest before maturity (an **instalment obligation**) will be treated as a Discount Covered Bond if the excess of the Covered Bond's stated redemption price at maturity over its issue price is greater than 0.25% of the Covered Bond's stated redemption price at maturity multiplied by the weighted average maturity of the Covered Bond. A Covered Bond's weighted average maturity is the sum of the following amounts determined for each payment on a Covered Bond (other than a payment of qualified stated interest): (i) the number of complete years from the issue date until the payment is made multiplied by (ii) a fraction, the numerator of which is the amount of the payment and the denominator of which is the Covered Bond's stated redemption price at maturity. Generally, the issue price of a Covered Bond will be the first price at which substantial amount of Covered Bonds included in the issue of which the Covered Bond is a part is sold to persons other than bond houses, brokers, or similar persons or organisations acting in the capacity of underwriters, placement agents, or wholesalers. The stated redemption price at maturity of a Covered Bond is the total of all payments provided by the Covered Bond that are not payments of "qualified stated interest." A qualified stated interest payment is generally any one of a series of stated interest payments on a Covered Bond that are unconditionally payable at least annually at a single fixed rate (with certain exceptions for lower rates paid

during some periods), or a variable rate (in the circumstances described below under "*Variable Interest Rate Covered Bonds*"), applied to the outstanding principal amount of the Covered Bond. Solely for the purposes of determining whether a Covered Bond has OID, the Issuer will be deemed to exercise any call option that has the effect of decreasing the yield on the Covered Bond and the holder will be deemed to exercise any put option that has the effect of increasing the yield of the Covered Bond. If a Covered Bond has *de minimis* OID, a US Holder must include the *de minimis* amount in income as stated principal payments are made on the Covered Bond, unless the holder makes the election described below under "*Election to Treat All Interest as Original Issue Discount*". A US Holder can determine the includible amount with respect to each such payment by multiplying the total amount of the Covered Bond's *de minimis* OID by a fraction equal to the amount of the principal payment made divided by the stated principal amount of the Covered Bond.

US Holders of Discount Covered Bonds must include OID in income calculated on a constant-yield method before the receipt of cash attributable to the income, and generally will have to include in income increasingly greater amounts of OID over the life of the Discount Covered Bonds. The amount of OID includible in income by a US Holder of a Discount Covered Bond is the sum of the daily portions of OID with respect to the Discount Covered Bond for each day during the taxable year or portion of the taxable year on which the US Holder holds the Discount Covered Bond (**accrued OID**). The daily portion is determined by allocating to each day in any "accrual period" a *pro rata* portion of the OID allocable to that accrual period. Accrual periods with respect to a Covered Bond may be of any length selected by the US Holder and may vary in length over the term of the Covered Bonds as long as (i) no accrual period is longer than one year and (ii) each scheduled payment of interest or principal on the Covered Bond occurs on either the final or first day of an accrual period. The amount of OID allocable to an accrual period equals the excess of (a) the product of the Discount Covered Bond's adjusted issue price at the beginning of the accrual period and the Discount Covered Bond's yield to maturity (determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of the accrual period) over (b) the sum of the payments of qualified stated interest on the Covered Bond allocable to the accrual period. The "adjusted issue price" of a Discount Covered Bond at the beginning of any accrual period is the issue price of the Covered Bond increased by (x) the amount of accrued OID for each prior accrual period and decreased by (y) the amount of any payments previously made on the Covered Bond that were not qualified stated interest payments.

Acquisition Premium

A US Holder that purchases a Discount Covered Bond for an amount less than or equal to the sum of all amounts payable on the Covered Bond after the purchase date, other than payments of qualified stated interest, but in excess of its adjusted issue price (any such excess being **acquisition premium**) and that does not make the election described below under "*Election to Treat All Interest as Original Issue Discount*", is permitted to reduce the daily portions of OID by a fraction, the numerator of which is the excess of the US Holder's adjusted basis in the Discount Covered Bond immediately after its purchase over the Discount Covered Bond's adjusted issue price, and the denominator of which is the excess of the sum of all amounts payable on the Discount Covered Bond after the purchase date, other than payments of qualified stated interest, over the Discount Covered Bond's adjusted issue price.

Market Discount

A Covered Bond, other than a Short-Term Bond, generally will be treated as purchased at a market discount (a **Market Discount Covered Bond**) if the Covered Bond's stated redemption price at maturity or, in the case of a Discount Covered Bond, the Covered Bond's "revised issue price", exceeds the amount for which the US Holder purchased the Covered Bond by at least 0.25% of the Covered Bond's stated redemption price at maturity or revised issue price, respectively, multiplied by the number of complete years to the Covered Bond's maturity (or, in the case of a Covered Bond that is an instalment obligation, the Covered Bond's weighted average maturity). If this excess is not sufficient to cause the Covered Bond to be a Market Discount Covered Bond, then the excess constitutes "*de minimis* market discount". For this purpose, the "revised issue price" of a Bond generally equals its issue price, increased by the amount of any OID that has

accrued on the Bond and decreased by the amount of any payments previously made on the Bond that were not qualified stated interest payments.

Under the market discount rules, a US Holder will be required to treat any principal payment (or, in the case of a Discount Covered Bond, any payment that does not constitute qualified stated interest) on, or any gain realised on the sale, exchange, retirement or other disposition of, a Market Discount Covered Bond as ordinary income to the extent of the lesser of (i) the amount of such payment or realised gain or (ii) the market discount which has not previously been included in income and is treated as having accrued on such Market Discount Covered Bond at the time of such payment or disposition. Market discount will be considered to accrue rateably during the period from the date of acquisition to the maturity date of the Market Discount Covered Bond, unless the US Holder elects to accrue market discount under a constant-yield method.

A US Holder may be required to defer the deduction of all or a portion of the interest paid or accrued on any indebtedness incurred or maintained to purchase or carry a Market Discount Covered Bond until the maturity of such Market Discount Covered Bond or certain earlier dispositions, because a current deduction is only allowed to the extent the interest expense exceeds an allocable portion of market discount. A US Holder may elect to include market discount in income currently as it accrues (under either a rateable or a constant-yield method), in which case the rules described above regarding the treatment as ordinary income or gain upon the disposition of the Market Discount Covered Bond and upon the receipt of certain cash payments and regarding the deferral of interest deductions will not apply. Generally, such currently included market discount is treated as ordinary interest income for US federal income tax purposes. Such an election will apply to all debt instruments acquired by the US Holder on or after the first day of the first taxable year to which such election applies and may be revoked only with the consent of the Internal Revenue Service (the **IRS**).

Election to Treat All Interest as Original Issue Discount

A US Holder may elect to include in gross income all interest that accrues on a Covered Bond using the constant-yield method described above under "*Original Issue Discount – General*", with certain modifications. For purposes of this election, interest includes stated interest, OID, *de minimis* OID, market discount, *de minimis* market discount and unstated interest, as adjusted by any amortisable bond premium (described below under "*Covered Bonds Purchased at a Premium*") or acquisition premium. If a US Holder makes this election for the Covered Bond, then, when the constant-yield method is applied the issue price of the Covered Bond will equal its cost, the issue date of the Covered Bond will be the date of acquisition, and no payments on the Covered Bond will be treated as payments of qualified stated interest. This election will generally apply only to the Covered Bond with respect to which it is made and may not be revoked without the consent of the IRS. However, if the Covered Bond has amortisable bond premium, the US Holder will be deemed to have made an election to apply amortisable bond premium against interest for all debt instruments with amortisable bond premium, other than debt instruments the interest on which is excludible from gross income, held as of the beginning of the taxable year to which the election applies or any taxable year thereafter. If the election to apply the constant-yield method to all interest on a Covered Bond is made with respect to a Market Discount Covered Bond, the electing US Holder will be treated as having made the election discussed above under "*Market Discount*" to include market discount in income currently over the life of all debt instruments with market discount held or thereafter acquired by the US Holder.

Variable Interest Rate Covered Bonds

Covered Bonds that provide for interest at variable rates (**Variable Interest Rate Covered Bonds**) generally will bear interest at a "qualified floating rate" and thus will be treated as "variable rate debt instruments" under Treasury Regulations governing accrual of OID. A Variable Interest Rate Covered Bond will qualify as a "variable rate debt instrument" if (a) its issue price does not exceed the total noncontingent principal payments due under the Variable Interest Rate Covered Bond by more than a specified *de minimis* amount and (b) it provides for stated interest, paid or compounded at least annually, at (i) one or more qualified

floating rates, (ii) a single fixed rate and one or more qualified floating rates, (iii) a single objective rate, or (iv) a single fixed rate and a single objective rate that is a qualified inverse floating rate.

A "qualified floating rate" is any variable rate where variations in the value of the rate can reasonably be expected to measure contemporaneous variations in the cost of newly borrowed funds in the currency in which the Variable Interest Rate Covered Bond is denominated. A fixed multiple of a qualified floating rate will constitute a qualified floating rate only if the multiple is greater than 0.65 but not more than 1.35. A variable rate equal to the product of a qualified floating rate and a fixed multiple that is greater than 0.65 but not more than 1.35, increased or decreased by a fixed rate, will also constitute a qualified floating rate. In addition, two or more qualified floating rates that can reasonably be expected to have approximately the same values throughout the term of the Variable Interest Rate Covered Bond (e.g., two or more qualified floating rates with values within 25 basis points of each other as determined on the Variable Interest Rate Covered Bond's issue date) will be treated as a single qualified floating rate. Notwithstanding the foregoing, a variable rate that would otherwise constitute a qualified floating rate but which is subject to one or more restrictions such as a maximum numerical limitation (i.e., a cap) or a minimum numerical limitation (i.e., a floor) may, under certain circumstances, fail to be treated as a qualified floating rate unless the cap or floor is fixed throughout the term of the Covered Bond.

An "objective rate" is a rate that is not itself a qualified floating rate but which is determined using a single fixed formula and which is based on objective financial or economic information (e.g., one or more qualified floating rates or the yield of actively traded personal property). A rate will not qualify as an objective rate if it is based on information that is within the control of the Issuer (or a related party) or that is unique to the circumstances of the Issuer (or a related party), such as dividends, profits or the value of the Issuer's stock (although a rate does not fail to be an objective rate merely because it is based on the credit quality of the Issuer). Other variable interest rates may be treated as objective rates if so designated by the IRS in the future. Despite the foregoing, a variable rate of interest on a Variable Interest Rate Covered Bond will not constitute an objective rate if it is reasonably expected that the average value of the rate during the first half of the Variable Interest Rate Covered Bond's term will be either significantly less than or significantly greater than the average value of the rate during the final half of the Variable Interest Rate Covered Bond's term. A "qualified inverse floating rate" is any objective rate where the rate is equal to a fixed rate minus a qualified floating rate, as long as variations in the rate can reasonably be expected to inversely reflect contemporaneous variations in the qualified floating rate. If a Variable Interest Rate Covered Bond provides for stated interest at a fixed rate for an initial period of one year or less followed by a variable rate that is either a qualified floating rate or an objective rate for a subsequent period and if the variable rate on the Variable Interest Rate Covered Bond's issue date is intended to approximate the fixed rate (e.g., the value of the variable rate on the issue date does not differ from the value of the fixed rate by more than 25 basis points), then the fixed rate and the variable rate together will constitute either a single qualified floating rate or objective rate, as the case may be.

A qualified floating rate or objective rate in effect at any time during the term of the instrument must be set at a "current value" of that rate. A current value of a rate is the value of the rate on any day that is no earlier than three months prior to the first day on which that value is in effect and no later than one year following that first day.

If a Variable Interest Rate Covered Bond that provides for stated interest at either a single qualified floating rate or a single objective rate throughout the term thereof qualifies as a "variable rate debt instrument", then any stated interest on the Covered Bond which is unconditionally payable in cash or property (other than debt instruments of the Issuer) at least annually will constitute qualified stated interest and will be taxed accordingly. Thus, a Variable Interest Rate Covered Bond that provides for stated interest at either a single qualified floating rate or a single objective rate throughout the term thereof and that qualifies as a "variable rate debt instrument" will generally not be treated as having been issued with OID unless the Variable Interest Rate Covered Bond is issued at a "true discount" (i.e., at a price below the Covered Bond's stated principal amount) in excess of a specified *de minimis* amount. OID on a Variable Interest Rate Covered Bond arising from true discount is allocated to an accrual period using the constant-yield method described

above by assuming that the variable rate is a fixed rate equal to (i) in the case of a qualified floating rate or qualified inverse floating rate, the value, as of the issue date, of the qualified floating rate or qualified inverse floating rate, or (ii) in the case of an objective rate (other than a qualified inverse floating rate), a fixed rate that reflects the yield that is reasonably expected for the Variable Interest Rate Covered Bond.

In general, any other Variable Interest Rate Covered Bond that qualifies as a "variable rate debt instrument" will be converted into an equivalent fixed rate debt instrument for purposes of determining the amount and accrual of OID and qualified stated interest on the Variable Interest Rate Covered Bond. Such a Variable Interest Rate Covered Bond must be converted into an equivalent fixed rate debt instrument by substituting any qualified floating rate or qualified inverse floating rate provided for under the terms of the Variable Interest Rate Covered Bond with a fixed rate equal to the value of the qualified floating rate or qualified inverse floating rate, as the case may be, as of the Variable Interest Rate Covered Bond's issue date. Any objective rate (other than a qualified inverse floating rate) provided for under the terms of the Variable Interest Rate Covered Bond is converted into a fixed rate that reflects the yield that is reasonably expected for the Variable Interest Rate Covered Bond. In the case of a Variable Interest Rate Covered Bond that qualifies as a "variable rate debt instrument" and provides for stated interest at a fixed rate in addition to either one or more qualified floating rates or a qualified inverse floating rate, the fixed rate is initially converted into a qualified floating rate (or a qualified inverse floating rate, if the Variable Interest Rate Covered Bond provides for a qualified inverse floating rate). Under these circumstances, the qualified floating rate or qualified inverse floating rate that replaces the fixed rate must be such that the fair market value of the Variable Interest Rate Covered Bond as of the Variable Interest Rate Covered Bond's issue date is approximately the same as the fair market value of an otherwise identical debt instrument that provides for either the qualified floating rate or qualified inverse floating rate rather than the fixed rate. Subsequent to converting the fixed rate into either a qualified floating rate or a qualified inverse floating rate, the Variable Interest Rate Covered Bond is converted into an equivalent fixed rate debt instrument in the manner described above.

Once the Variable Interest Rate Covered Bond is converted into an equivalent fixed rate debt instrument pursuant to the foregoing rules, the amount of OID and qualified stated interest, if any, are determined for the equivalent fixed rate debt instrument by applying the general OID rules to the equivalent fixed rate debt instrument and a US Holder of the Variable Interest Rate Covered Bond will account for the OID and qualified stated interest as if the US Holder held the equivalent fixed rate debt instrument. In each accrual period, appropriate adjustments will be made to the amount of qualified stated interest or OID assumed to have been accrued or paid with respect to the equivalent fixed rate debt instrument in the event that these amounts differ from the actual amount of interest accrued or paid on the Variable Interest Rate Covered Bond during the accrual period.

If a Variable Interest Rate Covered Bond, such as a Covered Bond the payments on which are determined by reference to an index, does not qualify as a "variable rate debt instrument", then the Variable Interest Rate Covered Bond will be treated as a contingent payment debt instrument.

Short-Term Covered Bonds

In general, an individual or other cash basis US Holder of a Short-Term Covered Bond is not required to accrue OID (calculated as set forth below for the purposes of this paragraph) for US federal income tax purposes unless it elects to do so (but may be required to include any stated interest in income as the interest is received). Accrual basis US Holders and certain other US Holders are required to accrue OID on Short-Term Covered Bonds on a straight-line basis or, if the US Holder so elects, under the constant-yield method (based on daily compounding). In the case of a US Holder not required and not electing to include OID in income currently, any gain realised on the sale or retirement of the Short-Term Covered Bond will be ordinary income to the extent of the OID accrued on a straight-line basis (unless an election is made to accrue the OID under the constant-yield method) through the date of sale or retirement. US Holders who are not required and do not elect to accrue OID on Short-Term Covered Bonds will be required to defer

deductions for interest on borrowings allocable to Short-Term Covered Bonds in an amount not exceeding the deferred income until the deferred income is realised.

For purposes of determining the amount of OID subject to these rules, all interest payments on a Short-Term Covered Bond are included in the Short-Term Covered Bond's stated redemption price at maturity. A US Holder may elect to determine OID on a Short-Term Covered Bond as if the Short-Term Covered Bond had been originally issued to the US Holder at the US Holder's purchase price for the Short-Term Covered Bond. This election shall apply to all obligations with a maturity of one year or less acquired by the US Holder on or after the first day of the first taxable year to which the election applies, and may not be revoked without the consent of the IRS.

Covered Bonds Purchased at a Premium

A US Holder that purchases a Covered Bond for an amount in excess of its principal amount, or for a Discount Covered Bond, its stated redemption price at maturity, may elect to treat the excess as "amortisable bond premium", in which case the amount required to be included in the US Holder's income each year with respect to interest on the Covered Bond will be reduced by the amount of amortisable bond premium allocable (based on the Covered Bond's yield to maturity) to that year. Any election to amortise bond premium shall apply to all bonds (other than bonds the interest on which is excludable from gross income for US federal income tax purposes) held by the US Holder at the beginning of the first taxable year to which the election applies or thereafter acquired by the US Holder, and is irrevocable without the consent of the IRS. See also "*Original Issue Discount – Election to Treat All Interest as Original Issue Discount*". A US Holder that does not elect to take bond premium (other than acquisition premium) into account currently will recognise a capital loss when the Covered Bond matures.

Modifications to the Terms and Conditions of the Covered Bonds

Certain modifications to the terms of the Covered Bonds described in Condition 14 (Meetings of holders of the Covered Bonds, Modification, Waiver and Substitution), including the substitution of an entity in place of the Issuer as principal debtor under the Covered Bonds, may constitute taxable events. If any modification to the terms and conditions of the Covered Bonds were a taxable event, such modification would be treated for US federal income tax purposes as an exchange of the Covered Bond for a new Covered Bond at the time the modification occurs (a **Deemed Exchange**) for an amount equal to the fair market value of the new Covered Bond. As a result, pursuant to a Deemed Exchange, a US Holder of a Covered Bond may be required to recognise gain (or loss) for US federal income tax purposes despite not having received any actual distributions of income in connection with the Deemed Exchange. (See "*Purchase, Sale and Retirement of Covered Bonds*" below.)

Purchase, Sale and Retirement of Covered Bonds

A US Holder's tax basis in a Covered Bond will generally be its cost, increased by the amount of any OID or market discount included in the US Holder's income with respect to the Covered Bond and the amount, if any, of income attributable to *de minimis* OID and *de minimis* market discount included in the US Holder's income with respect to the Covered Bond, and reduced by (i) the amount of any payments that are not qualified stated interest payments, and (ii) the amount of any amortisable bond premium applied to reduce interest on the Covered Bond.

A US Holder will generally recognise gain or loss on the sale or retirement of a Covered Bond equal to the difference between the amount realised on the sale or retirement and the tax basis of the Covered Bond. Except to the extent described above under "*Original Issue Discount – Market Discount*" or "*Original Issue Discount – Short Term Covered Bonds*" or attributable to accrued but unpaid interest or changes in exchange rates (as discussed below), gain or loss recognised on the sale or retirement of a Covered Bond will be capital gain or loss and generally will be treated as from US sources for purposes of the US foreign tax credit limitation and may be taxable at reduced rates in the case of a US Holder that is an individual, estate or trust,

if the Covered Bonds are held for more than one year. The deductibility of capital losses is subject to limitations.

Foreign Currency Covered Bonds

Interest

If an interest payment is denominated in, or determined by reference to, a foreign currency, the amount of income recognised by a cash basis US Holder will be the US dollar value of the interest payment, based on the exchange rate in effect on the date of receipt, regardless of whether the payment is in fact converted into US dollars.

An accrual basis US Holder may determine the amount of income recognised with respect to an interest payment denominated in, or determined by reference to, a foreign currency in accordance with either of two methods. Under the first method, the amount of income accrued will be based on the average exchange rate in effect during the interest accrual period (or, in the case of an accrual period that spans two taxable years of a US Holder, the part of the period within the taxable year).

Under the second method, the US Holder may elect to determine the amount of income accrued on the basis of the exchange rate in effect on the last day of the accrual period (or, in the case of an accrual period that spans two taxable years, the exchange rate in effect on the last day of the part of the period within the taxable year). Additionally, if a payment of interest is actually received within five Business Days of the last day of the accrual period, an electing accrual basis US Holder may instead translate the accrued interest into US dollars at the exchange rate in effect on the day of actual receipt. Any such election will apply to all debt instruments held by the US Holder at the beginning of the first taxable year to which the election applies or thereafter acquired by the US Holder, and will be irrevocable without the consent of the IRS.

Upon receipt of an interest payment (including a payment attributable to accrued but unpaid interest upon the sale or retirement of a Covered Bond) denominated in, or determined by reference to, a foreign currency, the US Holder may recognise US source exchange gain or loss (taxable as ordinary income or loss) equal to the difference between the amount received (translated into US dollars at the spot rate on the date of receipt) and the amount previously accrued, regardless of whether the payment is in fact converted into US dollars.

Original Issue Discount

OID for each accrual period on a Discount Covered Bond that is denominated in, or determined by reference to, a foreign currency, will be determined in the foreign currency and then translated into US dollars in the same manner as stated interest accrued by an accrual basis US Holder, as described above under "*Foreign Currency Covered Bonds – Interest*". Upon receipt of an amount attributable to OID (whether in connection with a payment on the Covered Bond or a sale of the Covered Bond), a US Holder may recognise US source exchange gain or loss (taxable as ordinary income or loss) equal to the difference between the amount received (translated into US dollars at the spot rate on the date of receipt) and the amount previously accrued, regardless of whether the payment is in fact converted into US dollars.

Bond Premium

Bond premium (including acquisition premium) on a Covered Bond that is denominated in, or determined by reference to, a foreign currency, will be computed in units of the foreign currency, and any such bond premium that is taken into account currently will reduce interest income in units of the foreign currency.

On the date bond premium offsets interest income, a US Holder may recognise US source exchange gain or loss (taxable as ordinary income or loss) measured by the difference between the spot rate in effect on that date, and on the date the Covered Bonds were acquired by the US Holder.

Purchase, Sale and Retirement of Covered Bonds

As discussed above under "*Purchase, Sale and Retirement of Covered Bonds*", a US Holder will generally recognise gain or loss on the sale or retirement of a Covered Bond equal to the difference between the amount realised on the sale or retirement and its tax basis in the Covered Bond. A US Holder's tax basis in a Foreign Currency Covered Bond will be determined by reference to the US dollar cost of the Covered Bond. The US dollar cost of a Covered Bond purchased with foreign currency will generally be the US dollar value of the purchase price on the date of purchase or, in the case of Covered Bonds traded on an established securities market, as defined in the applicable Treasury Regulations, that are purchased by a cash basis US Holder (or an accrual basis US Holder that so elects), on the settlement date for the purchase.

The amount realised on a sale or retirement for an amount in foreign currency will be the US dollar value of this amount on the date of sale or retirement or, in the case of Covered Bonds traded on an established securities market, as defined in the applicable Treasury Regulations, sold by a cash basis US Holder (or an accrual basis US Holder that so elects), on the settlement date for the sale. Such an election by an accrual basis US Holder must be applied consistently from year to year and cannot be revoked without the consent of the IRS.

A US Holder will recognise US source exchange gain or loss (taxable as ordinary income or loss) on the sale or retirement of a Covered Bond equal to the difference, if any between the US dollar values of the US Holder's purchase price for the Covered Bond (or, if less, the principal amount of the Covered Bond) (i) on the date of sale or retirement and (ii) the date on which the US Holder acquired the Covered Bond. Any such exchange gain or loss will be realised only to the extent of total gain or loss realised on the sale or retirement.

Disposition of Foreign Currency

Foreign currency received as interest on a Covered Bond or on the sale or retirement of a Covered Bond will generally have a tax basis equal to its US dollar value at the time the interest is received or at the time of the sale or retirement. Foreign currency that is purchased will generally have a tax basis equal to the US dollar value of the foreign currency on the date of purchase. Any gain or loss recognised on a sale or other disposition of a foreign currency (including its use to purchase Covered Bonds or upon exchange for US dollars) will be US source ordinary income or loss.

Tax Return Disclosure Regulations

Pursuant to Treasury Regulations (the **Disclosure Regulations**), any taxpayer that has participated in a "reportable transaction" and who is required to file a US federal income tax return must generally attach a disclosure statement disclosing such taxpayer's participation in the reportable transaction to the taxpayer's tax return for each taxable year for which the taxpayer participates in the reportable transaction. A penalty in the amount of US$10,000 in the case of a natural person and US$50,000 in any other case is imposed on any taxpayer that fails to file a reportable transaction disclosure statement. The Disclosure Regulations provide that, in addition to certain other transactions, a "loss transaction" constitutes a "reportable transaction." A "loss transaction" is any transaction resulting in the taxpayer claiming a loss under section 165 of the Code in an amount equal to or in excess of certain threshold amounts. The Disclosure Regulations specifically provide that a loss resulting from a "section 988 transaction," such as an investment in Covered Bonds denominated or on which interest is payable in a foreign currency, will constitute a section 165 loss. In the case of individuals or trusts, whether or not the loss flows through from an S corporation or partnership, if the loss arises with respect to a section 988 transaction (as defined in section 988(c)(l) of the Code relating to foreign currency transactions), the applicable threshold amount is US$50,000 in any single taxable year. Higher threshold amounts apply depending upon the taxpayer's status as a corporation, partnership, or S corporation, as well as certain other factors. It is important to note, however, that the Disclosure Regulations provide that the fact that a transaction is a reportable transaction shall not affect the legal determination of whether the taxpayer's treatment of the transaction is proper.

Backup Withholding and Information Reporting

In general, payments of interest and accrued OID on, and the proceeds of a sale, redemption or other disposition of, the Covered Bonds, payable to a US Holder within the United States or by a US paying agent or certain other US-related intermediaries will be reported to the IRS and to the US Holder as may be required under applicable regulations. Backup withholding may apply to these payments if the US Holder fails to provide an accurate taxpayer identification number or certification of exempt status or otherwise to comply with the applicable backup withholding requirements. Certain US Holders are not subject to information reporting or backup withholding.

Recently enacted legislation imposes new reporting requirements on the holding of certain foreign financial assets, including debt of foreign entities, by individuals if the aggregate value of all of these assets exceeds $50,000. An individual may be subject to these new reporting requirements unless the notes are regularly traded on an established securities market and held in an account at a domestic financial institution. US Holders should consult their tax advisors regarding the application of this legislation.

CERTAIN ERISA CONSIDERATIONS

*The following is a summary of certain considerations associated with the purchase of the Covered Bonds by employee benefit plans that are subject to Title I of the US Employee Retirement Income Security Act of 1974, as amended (**ERISA**), plans, individual retirement accounts and other arrangements that are subject to Section 4975 of the Code and entities whose underlying assets are considered to include "plan assets" of such plans, accounts and arrangements (each, a **Plan**).*

General Fiduciary Matters

ERISA imposes certain duties on persons who are fiduciaries of a Plan subject thereto, and ERISA and Section 4975 of the Code prohibit certain transactions involving the assets of a Plan and its fiduciaries or certain other interested parties. In considering an investment in the Covered Bonds of a portion of the assets of any Plan subject to ERISA, a fiduciary should determine whether the investment is in accordance with the documents governing such Plan and the applicable provisions of ERISA, Section 4975 of the Code and/or any Similar Law (as defined below) relating to a fiduciary's duties to such Plan including, without limitation, the prudence, diversification, delegation of control and prohibited transaction provisions of ERISA, Section 4975 of the Code and any other applicable Similar Laws.

Prohibited Transaction Issues

Section 406 of ERISA and Section 4975 of the Code prohibit ERISA Plans from engaging in specified transactions involving plan assets with persons who are "parties in interest" within the meaning of ERISA, or "disqualified persons" directly or indirectly within the meaning of Section 4975 of the Code, unless an exemption applies. A party in interest or disqualified person who engaged in a non-exempt prohibited transaction may be subject to excise taxes and other penalties and liabilities under ERISA and Code. In addition, the fiduciary of the Plan subject to ERISA that engaged in such a non-exempt prohibited transaction may be subject to penalties and liabilities under ERISA.

Whether or not our underlying assets are deemed to include "plan assets," as described below, the acquisition and/or holding of the Covered Bonds by a Plan with respect to which the Issuer, the underwriter, the trustee or the guarantor is considered a party in interest or a disqualified person may constitute or result in a direct or indirect prohibited transaction under Section 406 of ERISA and/or Section 4975 of the Code, unless the investment is acquired and is held in accordance with an applicable statutory, class or individual prohibited transaction exemption. In this regard, the US Department of Labor (the **DOL**) has issued prohibited transaction class exemptions, or **PTCEs**, that may apply to the acquisition and holding of the Covered Bonds. Certain exemptions from the prohibited transaction provisions of Section 406 of ERISA and Section 4975 of the Code may be applicable, however, depending in part on the type of Plan fiduciary making the decision to acquire a Covered Bond and the circumstances under which such decision is made. Included among these exemptions are Section 408(b)(17) of ERISA and Section 4975(d)(20) of the Code (relating to certain transactions between a plan and a non-fiduciary service provider), PTCE 91-38 (relating to investments by bank collective investment funds), PTCE 84-14 (relating to transactions effected by a **qualified professional asset manager**), PTCE 90-1 (relating to investments by insurance company pooled separate accounts), PTCE 95-60 (relating to investments by insurance company general accounts), and PTCE 96-23 (relating to transactions effected by in-house asset managers). There can be no assurance that any of these PTCEs or any other exemption will be available with respect to any particular transaction involving the Covered Bonds.

Governmental plans, certain church plans and non-US plans, while not subject to the fiduciary responsibility provisions of ERISA or the provisions of Section 4975 of the Code, may nevertheless be subject to other federal, state, local or non-US laws or regulations that are substantially similar to the foregoing provisions of ERISA and the Code (**Similar Law**).

Plan Asset Issues

"Look-through" Rule. Under the "look-through" rule set forth in the regulations issued by the DOL (the **Plan Assets Regulation**), the underlying assets owned by an entity (such as an Issuer) in which a Plan has an equity interest might be treated as if they were plan assets of such Plan. However, the "look-through" rule does not, by its terms, apply to an entity in which a Plan only owns debt of such entity and not an equity interest. The Plan Assets Regulation provides that an instrument constituting debt under applicable local law and lacking substantial equity features is not treated as an equity interest for purposes of such Regulation. If the Covered Bonds are treated as equity interests for purposes of the Plan Assets Regulation, the assets of the Issuer might be treated as "plan assets" of Plans that acquire or hold such Covered Bonds unless an exception to the look-through rule under the Plan Assets Regulation applies. The Issuer generally intends to treat Covered Bonds issued under the Programme as debt, unless otherwise indicated in the applicable Final Terms. Certain Covered Bonds, however, such as Index Linked Interest Covered Bonds, may be treated as equity for US federal income tax and ERISA purposes. The applicable Final Terms may contain modified disclosures concerning the tax and ERISA treatment of Covered Bonds to which a treatment other than as debt may apply.

Operating Company. One exception to the look through rule provides that when a Plan acquires an equity interest in an entity that is an "operating company" the underlying assets of such entity will not be deemed a "plan asset." Under the Plan Asset Regulation, an "operating company" is defined as "an entity that is primarily engaged, directly or through a majority owned subsidiary or subsidiaries, in the production or sale of a product or service other than the investment of capital". The Issuer believes that it is an "operating company" for purposes of the Plan Asset Regulation, although no assurance can be given in this regard.

Plan Asset Consequences. If equity securities of the Issuer are held by Benefit Plan Investors (as defined in Section 3(42) of ERISA) and the Issuer is not an operating company for purposes of the Plan Asset Regulation the Issuer's assets could be deemed to be "plan assets" under ERISA unless, at such time, another exemption is available under the Plan Asset Regulation. This would result, among other things, in (i) the application of the prudence and other fiduciary responsibility standards of ERISA to investments made by the Issuer, and (ii) the possibility that certain transactions in which the Issuer might seek to engage could constitute "prohibited transactions" under ERISA and the Code.

Representation

Accordingly, by acceptance of the Covered Bonds, each purchaser and subsequent transferee of the Covered Bonds will be deemed to have represented and warranted that either (i) no portion of the assets used by such purchaser or transferee to acquire and hold the Covered Bonds constitutes assets of any Plan or any governmental, church or non-US plan, or (ii) the purchase and holding of the Covered Bonds by such purchaser or transferee will not constitute a non-exempt prohibited transaction under Section 406 of ERISA or Section 4975 of the Code or any similar violation under any applicable Similar Laws.

The foregoing discussion is general in nature and is not intended to be all-inclusive. Due to the complexity of these rules and the penalties that may be imposed upon persons involved in non-exempt prohibited transactions, it is particularly important that fiduciaries, or other persons considering purchasing the Covered Bonds on behalf of, or with the assets of, any Plan or any governmental, church or non-US plan, consult with their counsel regarding the potential applicability of ERISA, Section 4975 of the Code and any Similar Laws to such investment and whether an exemption would be applicable to the purchase and holding of the Covered Bonds.

SUBSCRIPTION AND SALE AND TRANSFER AND SELLING RESTRICTIONS

The Dealers have, in a programme agreement dated 30 November 2005 and amended and restated on 25 June 2007 and 30 April 2008 (as the same may be further amended and/or supplemented and/or restated from time to time, the **Programme Agreement**) agreed with the Issuer and the LLP a basis upon which such Dealers or any of them may from time to time agree to purchase Covered Bonds. Any such agreement for any particular purchase by a Dealer will extend to those matters stated under "*Form of the Covered Bonds and Terms and Conditions of the Covered Bonds*" above. The Issuer may pay the Dealers commission from time to time in connection with the sale of any Covered Bonds, and in the Programme Agreement, the Issuer has agreed to reimburse and indemnify the Dealers for certain of their expenses and liabilities in connection with the establishment and any future updates of the Programme and the issue of Covered Bonds under the Programme. The Dealers are entitled to be released and discharged from their obligations in relation to any agreement to issue and purchase Covered Bonds under the Programme Agreement in certain circumstances prior to payment to the Issuer.

Transfer Restrictions

As a result of the following restrictions, purchasers of Covered Bonds in the United States are advised to consult legal counsel prior to making any purchase, offer, sale, resale or other transfer of such Covered Bonds.

Each purchaser of Registered Covered Bonds (other than a person purchasing an interest in a Registered Global Covered Bond with a view to holding it in the form of an interest in the same Global Covered Bond) or person wishing to transfer an interest from one Registered Global Covered Bond to another or from global to definitive form or vice versa, will be required to acknowledge, represent and agree as follows (terms used in this paragraph that are defined in Rule 144A or in Regulation S are used herein as defined therein):

(a) that either: (i) it is a QIB, purchasing (or holding) the Covered Bonds for its own account or for the account of one or more QlBs and it is aware that any sale to it is being made in reliance on Rule 144A, (ii) it is an Institutional Accredited Investor which has delivered an IAI Investment Letter or (iii) it is outside the United States and is not a US person;

(b) that the Covered Bonds are being offered and sold in a transaction not involving a public offering in the United States within the meaning of the Securities Act, and that the Covered Bonds and the Covered Bond Guarantee have not been and will not be registered under the Securities Act or any applicable US state securities laws and may not be offered or sold within the United States or to, or for the account or benefit of, US persons except as set forth below;

(c) that, unless it holds an interest in a Regulation S Global Covered Bond and either is a person located outside the United States or is not a US person, if in the future it decides to resell, pledge or otherwise transfer the Covered Bonds or any beneficial interests in the Covered Bonds, it will do so, prior to the date which is one year after the later of the last Issue Date for the Series and the last date on which the Issuer or an affiliate of the Issuer was the owner of such Covered Bonds, only (i) to the Issuer or any affiliate thereof, (ii) inside the United States to a person whom the seller reasonably believes is a QIB purchasing for its own account or for the account of a QIB in a transaction meeting the requirements of Rule 144A, (iii) outside the United States in compliance with Rule 903 or Rule 904 under the Securities Act, (iv) pursuant to the exemption from registration provided by Rule 144 under the Securities Act (if available) or (v) pursuant to an effective registration statement under the Securities Act, in each case in accordance with all applicable US state securities laws;

(d) it will, and will require each subsequent holder to, notify any purchaser of the Covered Bonds from it of the resale restrictions referred to in paragraph (c) above, if then applicable;

(e) that either (i) it is not, and is not purchasing the Covered Bonds on behalf of, or with the assets of, an "**employee benefit plan**" as defined in Section 3(3) of ERISA subject to the fiduciary responsibility provisions thereof, a "**plan**" as defined in and subject to Section 4975 of the Code, an entity whose underlying assets include "plan assets" by reason of any such Employee Benefit Plan's or Plan's investment in the entity, or a governmental, church or non-US plan which is subject to Similar Law, or (ii) its purchase and holding of the Covered Bonds does not constitute a non-exempt prohibited transaction under the fiduciary provisions of ERISA, Section 4975 of the Code, or any similar violation of Similar Law;

(f) that Covered Bonds initially offered in the United States to QIBs will be represented by one or more Rule 144A Global Covered Bonds, that Covered Bonds offered to Institutional Accredited Investors will be in the form of Definitive IAI Registered Covered Bonds and that Covered Bonds offered outside the United States in reliance on Regulation S will be represented by one or more Regulation S Global Covered Bonds;

(g) that the Covered Bonds, other than the Regulation S Global Covered Bonds, will bear a legend to the following effect unless otherwise agreed to by the Issuer:

"THIS SECURITY HAS NOT BEEN REGISTERED UNDER THE US SECURITIES ACT OF 1933, AS AMENDED (THE **SECURITIES ACT**), OR ANY OTHER APPLICABLE US STATE SECURITIES LAWS AND, ACCORDINGLY, MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, US PERSONS EXCEPT AS SET FORTH IN THE FOLLOWING SENTENCE. BY ITS ACQUISITION HEREOF, THE HOLDER (A) REPRESENTS THAT (1) IT IS A **QUALIFIED INSTITUTIONAL BUYER** (AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT) PURCHASING THE SECURITIES FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF ONE OR MORE QUALIFIED INSTITUTIONAL BUYERS OR (2) IT IS AN INSTITUTIONAL "ACCREDITED INVESTOR" (AS DEFINED IN RULE 501(A)(1), (2), (3) OR (7) UNDER THE SECURITIES ACT) (AN **INSTITUTIONAL ACCREDITED INVESTOR**); (B) AGREES THAT IT WILL NOT RESELL OR OTHERWISE TRANSFER THE SECURITIES EXCEPT IN ACCORDANCE WITH THE AGENCY AGREEMENT IN RESPECT OF THIS SECURITY (THE **AGENCY AGREEMENT**) AND, PRIOR TO THE DATE WHICH IS ONE YEAR AFTER THE LATER OF THE LAST ISSUE DATE FOR THE SERIES AND THE LAST DATE ON WHICH THE ISSUER OR AN AFFILIATE OF THE ISSUER WAS THE OWNER OF SUCH SECURITIES OTHER THAN (1) TO THE ISSUER OR ANY AFFILIATE THEREOF, (2) INSIDE THE UNITED STATES TO A PERSON WHOM THE SELLER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A, (3) OUTSIDE THE UNITED STATES IN COMPLIANCE WITH RULE 903 OR RULE 904 UNDER THE SECURITIES ACT, (4) PURSUANT TO THE EXEMPTION FROM REGISTRATION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT (IF AVAILABLE) OR (5) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT, IN EACH CASE IN ACCORDANCE WITH ALL APPLICABLE SECURITIES LAWS OF THE STATES OF THE UNITED STATES AND ANY OTHER JURISDICTION; AND (C) IT AGREES THAT IT WILL DELIVER TO EACH PERSON TO WHOM THIS SECURITY IS TRANSFERRED A NOTICE SUBSTANTIALLY TO THE EFFECT OF THIS LEGEND.

THE ACQUISITION OF THE COVERED BONDS BY, OR ON BEHALF OF, OR WITH THE ASSETS OF ANY **EMPLOYEE BENEFIT PLAN** AS DEFINED IN SECTION 3(3) OF THE EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED (**ERISA**), SUBJECT TO THE FIDUCIARY RESPONSIBILITY PROVISIONS THEREOF, ANY **PLAN** AS DEFINED IN AND SUBJECT TO SECTION 4975 OF THE INTERNAL REVENUE CODE OF

1986, AS AMENDED (THE **CODE**), OR ANY ENTITY PART OR ALL OF THE ASSETS OF WHICH CONSTITUTE ASSETS OF ANY SUCH EMPLOYEE BENEFIT PLAN OR PLAN BY REASON OF US DEPARTMENT OF LABOUR REGULATION SECTION 2510.3-101 AS MODIFIED BY SECTION 3(42) OF ERISA (COLLECTIVELY **BENEFIT PLAN INVESTORS**), OR ANY GOVERNMENTAL, CHURCH OR OTHER PLAN SUBJECT TO FEDERAL, STATE, LOCAL, OR NON-US LAW SUBSTANTIALLY SIMILAR TO THE FIDUCIARY RESPONSIBILITY PROVISIONS OF ERISA OR SECTION 4975 OF THE CODE IS PROHIBITED UNLESS SUCH PURCHASE, HOLDING AND SUBSEQUENT DISPOSITION OF THE COVERED BONDS WOULD NOT RESULT IN ANY PROHIBITED TRANSACTION UNDER SECTION 406 OF ERISA OR UNDER SECTION 4975 OF THE CODE (OR, IN THE CASE OF A GOVERNMENTAL, CHURCH OR OTHER PLAN, ANY SUBSTANTIALLY SIMILAR FEDERAL, STATE, LOCAL, OR NON-US LAW).

THIS SECURITY AND RELATED DOCUMENTATION (INCLUDING, WITHOUT LIMITATION, THE AGENCY AGREEMENT REFERRED TO HEREIN) MAY BE AMENDED OR SUPPLEMENTED FROM TIME TO TIME, WITHOUT THE CONSENT OF, BUT UPON NOTICE TO, THE HOLDERS OF SUCH SECURITIES SENT TO THEIR REGISTERED ADDRESSES, TO MODIFY THE RESTRICTIONS ON AND PROCEDURES FOR RESALES AND OTHER TRANSFERS OF THIS SECURITY TO REFLECT ANY CHANGE IN APPLICABLE LAW OR REGULATION (OR THE INTERPRETATION THEREOF) OR IN PRACTICES RELATING TO RESALES OR OTHER TRANSFERS OF RESTRICTED SECURITIES GENERALLY. THE HOLDER OF THIS SECURITY SHALL BE DEEMED, BY ITS ACCEPTANCE OR PURCHASE HEREOF, TO HAVE AGREED TO ANY SUCH AMENDMENT OR SUPPLEMENT (EACH OF WHICH SHALL BE CONCLUSIVE AND BINDING ON THE HOLDER HEREOF AND ALL FUTURE HOLDERS OF THIS SECURITY AND ANY SECURITIES ISSUED IN EXCHANGE OR SUBSTITUTION THEREFOR, WHETHER OR NOT ANY NOTATION THEREOF IS MADE HEREON).";

(h) if it is outside the United States and is not a US person, that if it should resell or otherwise transfer the Covered Bonds prior to the expiration of the distribution compliance period (defined as 40 days after the completion of the distribution of the Tranche of Covered Bonds of which such Covered Bonds are a part, as determined and certified by the relevant Dealer, in the case of a non-syndicated issue, or the Lead Manager, in the case of a syndicated issue), it will do so only (A)(i) outside the United States in compliance with Rule 903 or 904 under the Securities Act or (ii) to a QIB in compliance with Rule 144A and (B) in accordance with the Securities Act and all applicable US state securities laws; and it acknowledges that the Regulation S Global Covered Bonds will bear a legend to the following effect unless otherwise agreed to by the Issuer:

"THIS SECURITY HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE US SECURITIES ACT OF 1933, AS AMENDED (THE **SECURITIES ACT**), OR ANY APPLICABLE US STATE SECURITIES LAWS AND, ACCORDINGLY, MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, US PERSONS EXCEPT IN ACCORDANCE WITH THE AGENCY AGREEMENT IN RESPECT OF THIS SECURITY (THE **AGENCY AGREEMENT**) AND PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT OR PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT. UNTIL THE EXPIRY OF THE PERIOD OF 40 DAYS AFTER THE COMPLETION OF THE DISTRIBUTION OF ALL THE COVERED BONDS OF THE TRANCHE OF WHICH THIS COVERED BOND FORMS PART, SALES MAY NOT BE MADE IN THE UNITED STATES OR TO US PERSONS UNLESS MADE (A) PURSUANT TO RULE 903 OR 904 OR REGULATION S UNDER THE SECURITIES ACT OR (B) TO QUALIFIED INSTITUTIONAL BUYERS AS DEFINED IN, AND IN TRANSACTIONS PURSUANT TO, RULE 144A UNDER THE SECURITIES ACT."; and

(i) that the Issuer and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements and agrees that if any of such acknowledgements, representations or agreements made by it are no longer accurate, it shall promptly notify the Issuer; and if it is acquiring any Covered Bonds as a fiduciary or agent for one or more accounts it represents that it has sole investment discretion with respect to each such account and that it has full power to make the foregoing acknowledgements, representations and agreements on behalf of each such account.

Institutional Accredited Investors who purchase Registered Covered Bonds in definitive form offered and sold in the United States in reliance upon the exemption from registration provided by Regulation D of the Securities Act are required to execute and deliver to the Registrar an IAI Investment Letter. Upon execution and delivery of an IAI Investment Letter by an Institutional Accredited Investor, Covered Bonds will be issued in definitive registered form. See "*Form of the Covered Bonds*".

The IAI Investment Letter will state, among other things, the following:

(a) that the Institutional Accredited Investor has received a copy of the Base Prospectus and such other information as it deems necessary in order to make its investment decision;

(b) that the Institutional Accredited Investor understands that any subsequent transfer of the Covered Bonds is subject to certain restrictions and conditions set forth in the Base Prospectus and the Covered Bonds (including those set out above) and that it agrees to be bound by, and not to resell, pledge or otherwise transfer the Covered Bonds except in compliance with, such restrictions and conditions and the Securities Act;

(c) that, in the normal course of its business, the Institutional Accredited investor invests in or purchases securities similar to the Covered Bonds;

(d) that the Institutional Accredited Investor is an institution that is an accredited investor within the meaning of Rule 501(a)(1), (2), (3) or (7) of Regulation D under the Securities Act and has such knowledge and experience in financial and business matters as to be capable of evaluating the merits and risks of its investment in the Covered Bonds, and it and any accounts for which it is acting are each able to bear the economic risk of its or any such accounts' investment for an indefinite period of time;

(e) that the Institutional Accredited Investor is acquiring the Covered Bonds purchased by it for its own account or for one or more accounts (each of which is an Institutional Accredited Investor) as to each of which it exercises sole investment discretion and not with a view to any distribution of the Covered Bonds, subject, nevertheless, to the understanding that the disposition of its property shall at all times be and remain within its control; and

(f) that, in the event that the Institutional Accredited Investor purchases Covered Bonds, it will acquire Covered Bonds having a minimum purchase price of at least US$500,000 (or the approximate equivalent in another Specified Currency).

No sale of Legended Covered Bonds in the United States to any one purchaser will be for less than US$100,000 (or the approximate equivalent in another Specified Currency) principal amount or, in the case of sales to Institutional Accredited Investors, US$500,000 (or the approximate equivalent in another Specified Currency) principal amount and no Legended Covered Bond will be issued in connection with such a sale in a smaller principal amount. If the purchaser is a non-bank fiduciary acting on behalf of others, each person for whom it is acting must purchase at least US$100,000 (or the approximate equivalent in another Specified Currency) or, in the case of sales to Institutional Accredited Investors, US$500,000 (or the approximate equivalent in another Specified Currency) principal amount of Registered Covered Bonds.

Dealers may arrange for the resale of Covered Bonds to QIBs pursuant to Rule 144A and each such purchaser of Covered Bonds is hereby notified that the Dealers may be relying on the exemption from the registration requirements of the Securities Act provided by Rule 144A. The minimum aggregate principal amount of Covered Bonds which may be purchased by a QIB pursuant to Rule 144A is US$100,000 (or the approximate equivalent in another Specified Currency).

Selling Restrictions

United Kingdom

Each Dealer has represented and agreed, that:

(a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA 2000) received by it in connection with the issue or sale of any Covered Bonds in circumstances in which Section 21(1) of the FSMA 2000 does not apply to the LLP or, in the case of the Issuer would not, if it was not an authorised person, apply to the Issuer; and

(b) it has complied and will comply with all applicable provisions of the FSMA 2000 with respect to anything done by it in relation to any Covered Bonds in, from or otherwise involving the UK.

United States

Each Dealer has acknowledged that the Covered Bonds and the Covered Bond Guarantee have not been and will not be registered under the Securities Act and Covered Bonds may not be offered, sold or delivered directly or indirectly within the United States or to, or for the account or benefit of, US persons except in certain transactions exempt from, or in transactions not subject to, the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

The Covered Bonds in bearer form are subject to US tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by US Treasury regulations. Each Dealer has agreed that it will not offer, sell or deliver a Covered Bond in bearer form within the United States or to United States persons except as permitted by the Programme Agreement. Terms used in this paragraph have the meanings given to them by the US Internal Revenue Code of 1986 and regulations thereunder.

In connection with any Covered Bond represented by a Regulation S Global Covered Bond or any Definitive Regulation S Covered Bond (**Regulation S Covered Bond**), each Dealer has represented and agreed that it will not offer, sell or deliver any such Regulation S Covered Bond within the United States or to, or for the account or benefit of, US persons (a) as part of its distribution at any time or (b) otherwise until 40 days after the later of the commencement of the offering and the Issue Date (**Distribution Compliance Period**), and except in either case in accordance with Regulation S under the Securities Act. Each Dealer has further agreed that it will send to each dealer to which it sells any Regulation S Covered Bond during the Distribution Compliance Period a confirmation or other notice setting forth the restrictions on offers and sales of such Regulation S Covered Bond within the United States or to, or for the account or benefit of, US persons. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

Until 40 days after the commencement of the offering of a Tranche of Covered Bonds, an offer or sale of any Regulation S Covered Bond within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with an available exemption from registration under the Securities Act.

The Programme Agreement provides that selected Dealers, through their selling agents which are registered broker-dealers in the United States, may resell Covered Bonds in the United States to QIBs pursuant to Rule 144A under the Securities Act and each such purchaser of Covered Bonds is hereby notified that the Dealers may be relying on the exemption from the Securities Act provided by Rule 144A.

Each Dealer appointed under the Programme Agreement will be required to represent and agree in respect of transactions under Rule 144A that it has not (and will not), nor has (nor will) any person acting on its behalf, (a) made offers or sales of any security, or solicited officers to buy, or otherwise negotiated in respect of, any security, under circumstances that would require the registration of the Covered Bonds under the Securities Act; or (b) engaged in any form of general solicitation or general advertising (within the meaning of Rule 502(c) under the Securities Act) in connection with any offer or sale of Covered Bonds in the United States.

Each issuance of Index Linked Covered Bonds or Dual Currency Covered Bonds shall be subject to such additional US selling restrictions as the Issuer and the relevant Dealer(s) may agree as a term of the issuance and purchase of such Covered Bonds, which additional selling restrictions shall be set out in the applicable Final Terms. The relevant Dealer will agree that it shall offer, sell and deliver such Covered Bonds only in compliance with such additional US selling restrictions.

Public Offer Selling Restriction under the Prospectus Directive

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a **Relevant Member State**), each Dealer has represented and agreed that with effect from and including the date on which the Prospectus Directive is implemented in that Member State (the **Relevant Implementation Date**) it has not made and will not make an offer of Covered Bonds which are the subject of an offering contemplated by this Prospectus as completed by the Final Terms in relation thereto to the public in that Relevant Member State, except that it may, with effect from and including the Relevant Implementation Date, make an offer of such Covered Bonds to the public in that Relevant Member State:

(a) at any time to legal entities which are authorised or regulated to operate in the financial markets or, if not so authorised or regulated, whose corporate purpose is solely to invest in securities;

(b) at any time to any legal entity which has two or more of (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than €43,000,000 and (3) an annual net turnover of more than €50,000,000, as shown in its last annual or consolidated accounts;

(c) at any time to fewer than 100 natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by the Issuer for any such offer;

(d) at any time if the denomination per Covered Bond being offered amounts to at least €50,000; or

(e) at any time in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Covered Bonds referred to in (b) to (e) above shall require the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, the expression "offer of Covered Bonds to the public" in relation to any Covered Bonds in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Covered Bonds to be offered so as to enable an investor to decide to purchase or subscribe for the Covered Bonds, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression **Prospectus Directive** means Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State.

Japan

The Covered Bonds have not been and will not be registered under the Financial Instruments and Exchange Act (Law No. 25 of 1948, as amended: the **FIEA**) and each Dealer has agreed that it will not offer or sell any Covered Bonds, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organised under the laws of Japan, as defined under Item 5, Paragraph 1, Article 6 of the Foreign Exchange and Foreign Trade Control Act (Law No. 228 of 1949, as amended), or to others for re-offering or resale, directly or indirectly, in Japan or to, or for the benefit of any resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the FIEA and any other applicable laws, regulations and ministerial guidelines of Japan.

Republic of Italy

Each Dealer has represented and agreed that the offering of the Covered Bonds has not been registered pursuant to Italian securities legislation and, accordingly, the Covered Bonds may not be offered, sold or delivered, nor may copies of the Prospectus or of any other document relating to the Covered Bonds be distributed in the Republic of Italy, except:

(a) to qualified investors ("*investitori qualificati*"), as defined in Article 100 of Legislative Decree no.58 of 24 February 1998, as amended (the **Financial Services Act**) and the relevant implementing regulations of Italian Securities Exchange Commission (**CONSOB**), as amended from time to time; or

(b) in other circumstances which are exempted from the rules on solicitation of investments pursuant to Article 100 of the Financial Services Act and Article 33, first paragraph, of CONSOB Regulation No. 11971 of 14 May 1999 (**Regulation No. 11991**), as amended.

Furthermore, each Dealer has represented and agreed that any offer, sale or delivery of the Covered Bonds or distribution of copies of this Prospectus or any other document relating to the Covered Bonds in the Republic of Italy under (a) or (b) above must be:

(i) made by an investment firm, bank or financial intermediary permitted to conduct such activities in the Republic of Italy in accordance with the Financial Services Act, CONSOB Regulation No. 16190 of 29 October 2007 (as amended from time to time) and Legislative Decree No. 385 of 1 September 1993, as amended (the **Italian Banking Act**);

(ii) in compliance with Article 129 of the Italian Banking Act and the implementing guidelines of the Bank of Italy (as amended from time to time) pursuant to which the Bank of Italy may request information on the issue or the offer of securities in the Republic of Italy; and

(iii) in accordance with any other applicable laws and regulations including those imposed by CONSOB or other Italian authority.

General

These selling restrictions may be modified by the agreement of the Issuer and any relevant Dealer following a change in a relevant law, regulation or directive. Any such modification and any additional selling restrictions with which any relevant Dealer will be required to comply will be set out in the Final Terms issued in respect of the issue of Covered Bonds to which it relates or in a supplement to this Base Prospectus.

Each Dealer has agreed that it will comply with all applicable securities laws, directives and regulations in force in any jurisdiction in which it purchases, offers, sells or delivers Covered Bonds or possesses or distributes this Base Prospectus, any other offering material or any Final Terms and will obtain any consent,

approval or permission required by it for the purchase, offer, sale or delivery by it of Covered Bonds under the laws, directives and regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, offers, sales or deliveries and none of the Issuer, the LLP, the Bond Trustee, the Security Trustee nor any of the other Dealers shall have any responsibility therefor. Furthermore, they will not directly or indirectly offer, sell or deliver any Covered Bonds or distribute or publish any form of application, base prospectus, advertisement or other offering material except under circumstances that will, to the best of their knowledge and belief, result in compliance with any applicable laws and regulations, and all offers, sales and deliveries of Covered Bonds by them will be made on the same terms.

None of the Issuer, the LLP, the Bond Trustee, the Security Trustee or any of the Dealers represents that Covered Bonds may at any time lawfully be sold in compliance with any applicable registration or other requirements in any jurisdiction, or pursuant to any exemption available thereunder, or assumes any responsibility for facilitating such sale.

With regard to each Tranche, the relevant Dealer(s) will be required to comply with such other restrictions as the Issuer and the relevant Dealer(s) shall agree as a term of issue and purchase as indicated in the applicable Final Terms.

Each Dealer will, unless prohibited by applicable law, furnish to each person to whom they offer or sell Covered Bonds a copy of the Base Prospectus as then amended or supplemented or, unless delivery of the Base Prospectus is required by applicable law, inform each such person that a copy will be made available upon request. The Dealers are not authorised to give any information or to make any representation not contained in the Base Prospectus in connection with the offer and sale of Covered Bonds to which the Base Prospectus relates.

This Base Prospectus may be used by the Dealers for offers and sales related to market-making transactions in the Covered Bonds. Any or each of the Dealers may act as principal or agent in these transactions. These sales will be made at prices relating to prevailing market prices at the time of sale. None of the Dealers has any obligation to make a market in the Covered Bonds, and any market-making may be discontinued at any time without notice. The Dealers are participating in the initial distribution of the Covered Bonds.

GENERAL INFORMATION

Authorisation

The establishment of the Programme and the issue of Covered Bonds were duly authorised by resolutions of the board of directors of the Issuer dated 16 March 2005 and 19 October 2005 and the minutes of delegation of the Issuer's Group Finance Director dated 5 April 2005. The giving of the Covered Bond Guarantee was duly authorised by a resolution of the board of directors of Nationwide in its capacity as Member of the LLP dated 19 October 2005.

The update of the Programme and the issue of a further tranche of Covered Bonds has been duly authorised by a resolution of the management board of the LLP dated 25 June 2010.

Listing of Covered Bonds

The admission of Covered Bonds to the Official List will be expressed as a percentage of their nominal amount (excluding accrued interest). It is expected that each Tranche of Covered Bonds which is to be admitted to the Official List and to trading on the regulated market of the London Stock Exchange will be admitted separately as and when issued, subject only to the issue of a Temporary Global Covered Bond, a Permanent Global Covered Bond, a Regulation S Global Covered Bond, a Rule 144A Global Covered Bond or a Definitive IAI Registered Covered Bond, as the case may be, initially representing the Covered Bonds of such Tranche. The listing of the Programme in respect of Covered Bonds is expected to be granted on or about 8 July 2009.

Documents Available

So long as Covered Bonds are capable of being issued under the Programme, copies of the following documents will, when published, be available to holders of the Covered Bonds during usual business hours on any weekday (Saturdays, Sundays and public holidays excepted) from the principal office of the Issuer and from the specified office of the Paying Agent for the time being in London:

(a) the constitutive documents of the LLP and the Issuer;

(b) the consolidated audited financial statements of the Issuer in respect of the financial years ended 4 April 2008, 4 April 2009 and 4 April 2010. The Issuer currently prepares audited accounts on an annual basis;

(c) the most recently published audited annual financial statements of the Issuer and the most recently published consolidated unaudited interim financial statements (if any) of the Issuer. The Issuer currently prepares unaudited consolidated and non-consolidated interim accounts on a semi-annual basis;

(d) the forms of the Global Covered Bonds, the Definitive Covered Bonds, the Receipts, the Coupons and the Talons;

(e) a copy of this Base Prospectus;

(f) any future base prospectuses, information memoranda and supplements including Final Terms (save that Final Terms relating to an unlisted Covered Bond will be available for inspection only by the relevant Dealer or Dealers specified in such Final Terms or, upon proof satisfactory to the Principal Paying Agent or the Registrar, as the case may be, as to the identity of the holder of any Covered Bond to which such Final Terms relate) to this Base Prospectus and any other documents incorporated herein or therein by reference; and

(g) each Transaction Document.

Clearing Systems

The Bearer Global Covered Bonds have been accepted for clearance through Euroclear and Clearstream, Luxembourg. The appropriate Common Code and ISIN for each Tranche of Bearer Global Covered Bonds allocated by Euroclear and Clearstream, Luxembourg will be specified in the applicable Final Terms. In addition, the Issuer may make an application for any Registered Covered Bonds to be accepted for trading in book-entry form by DTC. The CUSIP and/or CINS numbers for each Tranche of Registered Covered Bonds, together with the relevant ISIN and Common Code, will be specified in the applicable Final Terms. If the Covered Bonds are to clear through an additional or alternative clearing system, the appropriate information will be specified in the applicable Final Terms.

Significant or Material Change

There has been no significant change in the financial or trading position of the Issuer or the Nationwide Group since 4 April 2010, being the date of the most recent annual audited financial statements of the Nationwide Group, or of the LLP since 4 April 2009, being the date of the last audited financial statements of the LLP, and there has been no material adverse change in the financial position or the prospects of the Issuer or of the Nationwide Group since 4 April 2010 or of the LLP since 4 April 2009.

Litigation

Other than the proceedings in respect of the test case with the OFT (see "*The Issuer—Bank Charges*" on page 240), neither the Issuer nor its consolidated subsidiaries nor the LLP is or has been involved in any governmental, legal or arbitration proceedings which may have or have had in the 12 months prior to the date hereof, a significant effect on the financial position or profitability of the Nationwide Group or the Issuer or the LLP nor, so far as the Issuer or the LLP is aware, are any such proceedings pending or threatened.

Independent Auditors

The financial statements of the Issuer as at 4 April 2010, 2009 and 2008 and for the years then ended, incorporated by reference in this Base Prospectus have been audited by PricewaterhouseCoopers LLP, independent auditors as stated in their report incorporated by reference herein.

The financial statements of the LLP as of 4 April 2009, 2008 and 2007 and for the years then ended, incorporated by reference in this Base Prospectus have been audited by PricewaterhouseCoopers LLP, independent auditors as stated in their report incorporated by reference herein.

Reports

The Trust Deed provides that the Bond Trustee may rely on reports or other information from professional advisers or other experts in accordance with the provisions of the Trust Deed, whether or not any such report or other information, or engagement letter or other document entered into by the Bond Trustee and the relevant person in connection therewith, contains any monetary or other limit on the liability of the relevant person.

Contracts

There are no material contracts having been entered into outside the ordinary course of Issuer's business, and which could result in any member of the Nationwide Group being under an obligation or entitlement that is material to our ability to meet our obligation to Covered Bond holders in respect of the Covered Bonds being issued.

Post-issuance information

The Issuer provides quarterly Investor Reports which are available online from the Issuer's website, detailing, *inter alia*, compliance with the Asset Coverage Test.

GLOSSARY

1999 Regulations	Unfair Terms in Consumer Contracts Regulations 1999, as amended;
€, **Euro** or **euro**	The lawful currency for the time being of the Member States of the European Union that have adopted or may adopt the single currency in accordance with the treaty establishing the European Community (signed in Rome on 25 March 1957), as amended by the treaty on European Union;
£ and **Sterling**	The lawful currency for the time being of the United Kingdom of Great Britain and Northern Ireland;
$ and **US Dollars**	The lawful currency for the time being of the United States of America;
¥, **Yen** and **JPY**	Japanese Yen;
Account Bank	Nationwide;
Accrual Period	The relevant period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date;
Accrued Interest	In respect of a Loan as at any date, the aggregate of all interest accrued but not yet due and payable on the Loan from (and including) the Monthly Payment Date immediately preceding the relevant date to (but excluding) the relevant date;
Additional Loan Advance	A further drawing (including, but not limited to, Further Advances, Re-draws and Further Draws) in respect of Loans sold by the Seller to the LLP;
Adjusted Aggregate Loan Amount	The meaning given in *"Summary of the Principal Documents"* on page 260;
Adjusted Required Redemption Amount	The Sterling Equivalent of the Required Redemption Amount, plus or minus the Sterling Equivalent of any swap termination amounts payable under the Covered Bond Swap Agreement to or by the LLP in respect of the relevant Series of Covered Bonds less (where applicable) (i) amounts standing to the credit of the Pre-Maturity Liquidity Ledger that are not otherwise required to provide liquidity for any Series of Hard Bullet Covered Bonds which mature prior to or on the same date as the relevant Series of Hard Bullet Covered Bonds or (ii) amounts standing to the credit of the GIC Account and the Sterling Equivalent of the principal balance of any Authorised Investments (excluding all amounts to be applied on the next following LLP Payment Date to repay higher ranking amounts in the Guarantee Priority of Payments and those amounts that are required to repay any Series of Covered Bonds which

	mature prior to or on the same date as the relevant Series of Covered Bonds) plus or minus any swap termination amounts payable to or by the LLP under the Interest Rate Swap Agreement;
Adjusted True Balance	The meaning given in *"Summary of Principal Documents"* on page 261;
Agency Agreement	The agency agreement dated the Initial Programme Date and further amended and restated on or about 25 June 2007 (as further amended and/or supplemented and/or restated from time to time) and made between the Issuer, the LLP, the Bond Trustee, the Principal Paying Agent and the other Paying Agents, the Exchange Agent, the Registrar and the Transfer Agents;
Agent	Each of the Paying Agents, the Registrar, the Exchange Agent and the Transfer Agent;
Amortisation Test	The test as to whether the Amortisation Test Aggregate Loan Amount is at least equal to the Sterling Equivalent of the aggregate Principal Amount Outstanding of the Covered Bonds as calculated on the relevant Calculation Date;
Amortisation Test Aggregate Loan Amount	The meaning given in *"Summary of the Principal Documents"* on page 263;
Amortisation Test True Balance	The meaning given in *"Summary of the Principal Documents"* on page 264;
Amortised Face Amount	The meaning given in *"Terms and Conditions of Covered Bonds"* on page 112;
Arranger	Barclays Capital, the investment banking division of Barclays Bank PLC;
Arrears Adjusted True Balance	The meaning given in *"Summary of the Principal Documents"* on page 261;
Arrears of Interest	As at any date in respect of any Loan, interest (other than Capitalised Interest or Accrued Interest) on that Loan which is currently due and payable and unpaid on that date;
Asset Coverage Test	The test as to whether the Adjusted Aggregate Loan Amount is at least equal to the Sterling Equivalent of the aggregate Principal Amount Outstanding of the Covered Bonds as calculated on the relevant Calculation Date;
Asset Coverage Test Breach Notice	The notice required to be served by the Bond Trustee if the Asset Coverage Test has not been met on two consecutive Calculation Dates;

Asset Monitor	A reputable institution appointed as such under the Asset Monitor Agreement;
Asset Monitor Agreement	The asset monitor agreement entered into on the Initial Programme Date between the Asset Monitor, the LLP, the Cash Manager, the Issuer, the Bond Trustee and the Security Trustee;
Asset Monitor Report	The results of the tests conducted by the Asset Monitor in accordance with the Asset Monitor Agreement to be delivered to the Cash Manager, the LLP, the Issuer, the Bond Trustee and the Security Trustee;
Asset Percentage	The meaning given in *"Summary of the Principal Documents"* on page 263;
Asset Pool	All assets of the LLP from time to time including but not limited to the Portfolio, any Substitution Assets, any Authorised Investments, the rights of the LLP in the Transaction Documents, the LLP Accounts and all amounts standing to the credit thereto and any other assets referred to in Regulation 3(1) (Asset Pool) of the RCB Regulations, provided that all such assets are recorded as comprising the asset pool under the RCB Regulations;
Authorised Investments	(a) Sterling gilt-edged securities and (b) Sterling demand or time deposits, certificates of deposit and short-term debt obligations (including commercial paper) provided that in all cases such investments have a remaining maturity date of 30 days or less and mature on or before the next following LLP Payment Date and the short-term unsecured, unguaranteed and unsubordinated debt obligations of the issuing or guaranteeing entity or the entity with which the demand or time deposits are made (being an authorised person under the FSMA 2000) are rated at least A-1+ by Standard & Poor's, P-1 by Moody's and F1+ by Fitch or their equivalents by three other internationally recognised rating agencies, provided that such Authorised Investments comply with the requirements of Regulation 2(1)(a) of the RCB Regulations;
Authorised Underpayment	A payment made by a Borrower in an amount less than the Monthly Payment then due on the Loan being a sum not exceeding the aggregate of any previous Overpayments;
Available Principal Receipts	On a relevant Calculation Date, an amount equal to the aggregate of (without double counting): (a) the amount of Principal Receipts received during the immediately preceding Calculation Period and credited to the Principal Ledger on the GIC Account (but, for the avoidance of doubt, excluding any Principal Receipts received in the Calculation Period beginning in the month in which the relevant Calculation Date falls);

(b) any other amount standing to the credit of the Principal Ledger including (i) the proceeds of any Term Advance (where such proceeds have not been applied to acquire New Portfolios or invest in Substitution Assets), (ii) any Cash Capital Contributions received from a Member and (iii) the proceeds from any sale of Selected Loans pursuant to the terms of the LLP Deed or the Mortgage Sale Agreement but excluding any amount of principal received under the Covered Bond Swap Agreements; and

(c) following repayment of any Hard Bullet Covered Bonds by the Issuer and the Guarantor on the Final Maturity Date thereof, any amounts standing to the credit of the Pre-Maturity Liquidity Ledger in respect of such Series of Hard Bullet Covered Bonds (except where the LLP has elected to or is required to retain such amounts on the Pre-Maturity Liquidity Ledger);

Available Revenue Receipts

On a relevant Calculation Date, an amount equal to the aggregate of:

(a) the amount of Revenue Receipts received during the previous Calculation Period and credited to the Revenue Ledger on the GIC Account;

(b) other net income of the LLP including all amounts of interest received on the LLP Accounts (except for the Covered Bond Swap Collateral Accounts and the Stand-by Covered Bond Swap Collateral Accounts), the Substitution Assets and Authorised Investments in the previous Calculation Period but excluding amounts received by the LLP under the Interest Rate Swap Agreement and in respect of interest received by the LLP under each Covered Bond Swap Agreement and excluding any Swap Collateral;

(c) prior to the service of a Notice to Pay, amounts standing to the credit of the Reserve Fund in excess of the Reserve Fund Required Amount;

(d) any other Revenue Receipts not referred to in paragraphs (a) to (c) (inclusive) above received during the previous Calculation Period and standing to the credit of the Revenue Ledger on the GIC Account; and

(e) following the service on the LLP of a Notice to Pay, amounts standing to the credit of the Reserve Fund;

less

(f) Third Party Amounts, which shall be paid on receipt in cleared funds to the Seller;

Bank Account Agreement	The bank account agreement dated the Initial Programme Date (as amended and/or supplemented and/or restated from time to time) entered into between the LLP, the Account Bank, the Cash Manager and the Security Trustee;
Banking Act	Banking Act 2009;
Basel Committee	Basel Committee on Banking Supervision;
Basis Covered Bond Swap	Each basis swap transaction entered into between the LLP and a Covered Bond Swap Provider;
Bearer Covered Bonds	Bearer Definitive Covered Bonds or Bearer Global Covered Bonds, as the case may be;
Bearer Definitive Covered Bonds	A Bearer Covered Bond in definitive form issued or, as the case may require, to be issued by the Issuer in accordance with the provisions of the Programme Agreement or any other agreement between the Issuer and the relevant Dealer(s), the Agency Agreement and the Trust Deed in exchange for either a Temporary Global Covered Bond or part thereof or a Permanent Global Covered Bond or part thereof (all as indicated in the applicable Final Terms), such Bearer Covered Bond in definitive form being in the form or substantially in the form set out in Part 3 of Schedule 2 to the Trust Deed with such modifications (if any) as may be agreed between the Issuer, the Principal Paying Agent, the Bond Trustee and the relevant Dealer or Lead Manager (in the case of syndicated Issues) and having the Conditions endorsed thereon or, if permitted by the relevant Stock Exchange, incorporating the Conditions by reference as indicated in the applicable Final Terms and having the relevant information supplementing, replacing or modifying the Conditions appearing in the applicable Final Terms endorsed thereon or attached thereto and (except in the case of a Zero Coupon Covered Bonds in bearer form) having Coupons and, where appropriate, Receipts and/or Talons attached thereto on issue;
Bearer Global Covered Bond	The meaning given on page 70;
Beneficial Owner	Each actual purchaser of each DTC Covered Bond;
BMR	The Seller's base mortgage rate which is capped at 2% above the Bank of England base rate;
Bond Trustee	Citicorp Trustee Company Limited, in its capacity as bond trustee under the Trust Deed together with any successor bond trustee appointed from time to time;
Borrower	In relation to a Loan, the individual or individuals specified as such in the relevant Mortgage together with the individual or individuals (if any) from time to time assuming an obligation to repay such Loan or any part of it;

Buildings Insurance Policies	All buildings insurance policies relating to Properties taken out (a) in the name of the relevant Borrower (and, in the case of Seller Arranged Policies, the Seller) and (b) in the name of the landlord in the case of leasehold Properties where the relevant landlord is responsible for insuring the Property;
Buildings Societies Act	Buildings Societies Act 1986, as amended;
Business Day	The meaning given in *"Terms and Conditions of the Covered Bonds"* on page 99;
Calculation Agent	In relation to all or any Series of the Covered Bonds, the person initially appointed as calculation agent in relation to such Covered Bonds by the Issuer and the LLP pursuant to the Agency Agreement or, if applicable, any successor or separately appointed calculation agent in relation to all or any Series of the Covered Bonds;
Calculation Date	The 12th day of each month (or, if that day is not a Business Day, then the immediately preceding Business Day);
Calculation Period	The period from, and including, the first day of each month to, and including, the last day of each month;
Capital Account Ledger	The ledger maintained by the Cash Manager on behalf of the LLP in respect of each Member to record the balance of each Member's Capital Contributions from time to time;
Capital Balance	For a Loan at any date, the principal balance of that Loan to which the Servicer applies the relevant interest rate at which interest on that Loan accrues;
Capital Contribution	In relation to each Member, the aggregate of the capital contributed by that Member to the LLP from time to time by way of Cash Capital Contributions and Capital Contributions in Kind as determined on each Calculation Date in accordance with the formula set out in the LLP Deed;
Capital Contribution Balance	The balance of each Member's Capital Contributions as recorded from time to time in the relevant Member's Capital Account Ledger;
Capital Contribution in Kind	A contribution of Loans and their Related Security to the LLP in an amount equal to (a) the aggregate of the True Balance of those Loans as at the relevant Transfer Date minus (b) any cash payment paid by the LLP for the Loans and their Related Security on that Transfer Date;
Capital Distribution	Any return on a Member's Capital Contribution in accordance with the terms of the LLP Deed (and excluding, for the avoidance of doubt, any Deferred Consideration);

Capitalised Arrears	For any Loan at any date, interest or other amounts which are overdue in respect of that Loan and which as at that date have been added to the Capital Balance of the Loan in accordance with the Mortgage Conditions or otherwise by arrangement with the relevant Borrower;
Capitalised Expenses	In relation to a Loan, the amount of any expense, charge, fee, premium or payment (excluding, however, any Arrears of Interest) capitalised and added to the Capital Balance of that Loan in accordance with the relevant Mortgage Conditions;
Capitalised Interest	For any Loan at any date, interest which is overdue in respect of that Loan and which as at that date has been added to the Capital Balance of that Loan in accordance with the Mortgage Conditions or otherwise by arrangement with the relevant Borrower (excluding for the avoidance of doubt any Arrears of Interest which have not been so capitalised on that date);
Cash Capital Contributions	A Capital Contribution made in cash;
Cash Management Agreement	The cash management agreement dated the Initial Programme Date as amended on 27 November 2006, 30 November 2007, 30 April 2008, 3 July 2009 and 18 December 2009 (as amended and/or supplemented and/or restated from time to time) entered into between the LLP, Nationwide in its capacity as the Cash Manager and the Security Trustee;
Cash Manager	Nationwide, in its capacity as cash manager under the Cash Management Agreement together with any successor cash manager appointed from time to time;
Cash Re-draws	Cash re-draws to which a Borrower is entitled under a Flexible Loan as a result of Overpayments that the Borrower has made on that Flexible Loan or otherwise;
CCA	Consumer Credit Act 1974, as amended;
CCA 2006	Consumer Credit Act 2006, as may be amended from time to time;
Certificate of Title	A solicitor's, licensed conveyancer's or (in Scotland) qualified conveyancer's report or certificate of title obtained by or on behalf of the Seller in respect of each Property substantially in the form of the pro-forma set out in the Standard Documentation;
Charged Property	The property charged by the LLP pursuant to Clauses 3.1 to 3.9 (inclusive) (Security and Declaration of Trust) of the Deed of Charge;
Clearing Systems	DTC, Euroclear and/or Clearstream, Luxembourg;
Clearstream, Luxembourg	Clearstream Banking, société anonyme;

CML	Council of Mortgage Lenders;
CML Code	The Mortgage Code issued by the CML;
Common Depositary	The common depositary for Euroclear and Clearstream, Luxembourg;
Common Safekeeper	Either of Euroclear and/or Clearstream, Luxembourg in its capacity as common safekeeper or a person nominated by either of Euroclear and/or Clearstream, Luxembourg to perform the role of common safekeeper;
Conditions	Terms and conditions of the Covered Bonds;
Consumer Credit Directive	The meaning given on page 63;
Corporate Services Agreement	The corporate services agreement dated the Initial Programme Date (as amended and/or supplemented and/or restated from time to time) entered into by each of the Liquidation Member and Holdings, with, *inter alios,* the relevant Corporate Services Provider and the LLP;
Corporate Services Provider	Wilmington Trust SP Services (London) Limited, a company incorporated under the laws of England and Wales in its capacity as corporate services provider to Holdings and to the Liquidation Member under a Corporate Services Agreement, together with any successor corporate services provider appointed from time to time;
Couponholders	The holders of the Coupons (which expression shall, unless the context otherwise requires, include the holders of the Talons);
Coupons	The meaning given in *"Terms and Conditions of the Covered Bonds"* on page 90;
Covered Bond	Each covered bond issued or to be issued pursuant to the Programme Agreement and which is or is to be constituted under the Trust Deed, which covered bond may be represented by a Global Covered Bond or any Definitive Covered Bond and includes any replacements or a Covered Bond issued pursuant to Condition 10 (Replacement of Covered Bonds, Receipts, Coupons and Talons);
Covered Bond Guarantee	An unconditional and irrevocable guarantee by the LLP in the Trust Deed for the payment of Guaranteed Amounts in respect of the Covered Bonds when the same shall become Due for Payment;
Covered Bond Swap	Each Basis Covered Bond Swap and Interest Rate Covered Bond Swap;
Covered Bond Swap Agreement	Each agreement between the LLP, a Covered Bond Swap Provider and the Security Trustee governing Covered Bond

	Swaps entered into with such Covered Bond Swap Provider in the form of an ISDA Master Agreement, including a schedule, confirmations and any credit support annex in relation to each such Covered Bond Swap;
Covered Bond Swap Collateral Account	Each custody or bank account of the LLP to be opened and maintained by the Account Bank for the purposes of holding Swap Collateral provided by a Covered Bond Swap Provider pursuant to and in accordance with the terms of the applicable Covered Bond Swap Agreement;
Covered Bond Swap Collateral Account Ledger	The ledger maintained by the Cash Manager on behalf of the LLP in respect of each Covered Bond Swap Provider to record the amount of Swap Collateral provided from time to time under the applicable Covered Bond Swap Agreement;
Covered Bond Swap Early Termination Event	The meaning given in *"Summary of the Principal Documents"* on page 274;
Covered Bond Swap Provider	Each provider of a Covered Bond Swap under a Covered Bond Swap Agreement;
Covered Bond Swap Rate	In relation to a Covered Bond or Series of Covered Bonds, the exchange rate specified in the Covered Bond Swap Agreement relating to such Covered Bond or Series of Covered Bonds or, if the Covered Bond Swap Agreement has terminated, the applicable spot rate;
Credit Linked Covered Bonds	Covered Bonds in respect of which payments will be calculated by reference to the creditworthiness of, performance of obligations by, or some other factor relating to, one or more Reference Entities, as set out in the applicable Final Terms;
Custodian	Any custodian with whom the relevant Registered Global Covered Bonds have been deposited;
Day Count Fraction	In the case of a Fixed Rate Covered Bond, the meaning given in Condition 4.1 (Interest on Fixed Rate Covered Bonds) in *"Terms and Conditions of the Covered Bonds"* on page 97 and, in the case of a Floating Rate Covered Bond, the meaning given in Condition 4.2 (Interest on Floating Rate Covered Bonds and Index Linked Interest Covered Bonds) in *"Terms and Conditions of the Covered Bonds"* on page 101;
Dealer	Each of Barclays Bank PLC, Deutsche Bank Aktiengesellschaft, Citigroup Global Markets Limited, Morgan Stanley & Co. International plc, J.P. Morgan Securities Ltd., HSBC Bank plc, UBS Limited and any other dealers appointed from time to time in accordance with the Programme Agreement, which appointment may be for a specific issue or on an ongoing basis. References in this Base Prospectus to the relevant Dealer(s) shall, in the case of an issue of Covered Bonds being (or intended to be) subscribed for by more than one Dealer, be to all

	Dealers agreeing to subscribe for such Covered Bonds;
Deed of Charge	The deed of charge dated the Initial Programme Date and amended and restated on 30 November 2007, 30 April 2008 and 19 June 2008 (as amended and/or supplemented and/or restated from time to time) and made between the LLP, the Bond Trustee, the Security Trustee and certain other Secured Creditors;
Deed of Consent	A deed whereby a person in or intended to be in occupation of a Property agrees with the Seller to postpone his or her interest (if any) in the Property so that it ranks after the interest created in the relevant Mortgage;
Deed of Postponement	A deed or agreement whereby a mortgagee of or the heritable creditor in relation to a Property agrees with the Seller to postpone its mortgage or standard security (as appropriate) over the Property so that the sums secured by it will rank for repayment after the sums secured by the relevant Mortgage;
Defaulted Loan	Any Loan in the Portfolio which is more than three months in arrears;
Defaulted Loans Notice	A notice from the Cash Manager to the Seller identifying any Defaulted Loan;
Deferred Consideration	The consideration payable to a Seller in respect of the Loans sold to the LLP from time to time, which is payable after making payments of a higher order of priority as set out in the relevant Priorities of Payments;
Definitive Covered Bond	A Bearer Definitive Covered Bond and/or, as the context may require, a Registered Definitive Covered Bond;
Definitive IAI Registered Covered Bonds	The meaning given in *"Form of Covered Bonds"* on page 72;
Definitive Regulation S Covered Bond	A Registered Covered Bond in definitive form sold to non-US persons outside the United States in reliance on Regulation S;
Definitive Rule 144A Covered Bond	A Registered Covered Bond in definitive form sold to QIBs pursuant to Rule 144A;
Designated Account	The meaning given in Condition 5.4 (Payments in respect of Registered Covered Bonds) in *"Terms and Conditions of the Covered Bonds"* on page 105;
Designated Bank	The meaning given in Condition 5.4 (Payments in respect of Registered Covered Bonds) in *"Terms and Conditions of the Covered Bonds"* on page 105;
Designated Maturity	The meaning given in the ISDA Definitions;

Designated Member	Each Member appointed and registered as such from time to time having those duties and obligations set out in sections 8 and 9 of the LLPA 2000 being, as at the date of this Base Prospectus, Nationwide and the Liquidation Member;
Determination Date	The meaning given in the applicable Final Terms;
Determination Period	The meaning given in Condition 4.1 (Interest on Fixed Rate Covered Bonds) in *"Terms and Conditions of the Covered Bonds"* on page 97;
Direct Participants	The meaning given in *"Book-Entry Clearance Systems"* on page 309;
Directors	The Board of Directors for the time being of the Issuer;
Distribution Compliance Period	The period that ends 40 days after the completion of the distribution of each Tranche of Covered Bonds, as certified by the relevant Dealer (in the case of a non-syndicated issue) or the relevant Lead Manager (in the case of a syndicated issue);
DM Regulations	The meaning given in *"Distance Marketing of Financial Services"* on page 63;
DTC	The Depository Trust Company;
DTC Covered Bonds	Covered Bonds accepted into DTC's book-entry settlement system;
Dual Currency Covered Bonds	Covered Bonds in respect of which payments (whether in respect of principal or interest and whether at maturity or otherwise) will be made in such currencies, and based on such rates of exchange, as the Issuer and the relevant Dealer(s) may agree;
Dual Currency Interest Covered Bond	A Covered Bond in respect of which payments whether in respect of principal or interest are made in such different currencies, and based on such rates of exchange, as the Issuer and the relevant Dealer may agree;
Dual Currency Redemption Covered Bond	A Covered Bond in respect of which payments of principal are made or to be made in such different currencies, and at rates of exchange calculated upon such basis, as the Issuer and the relevant Dealers may agree (as indicated in the applicable Final Terms);
Due for Payment	The requirements by the LLP to pay any Guaranteed Amounts following the delivery of a Notice to Pay on the LLP, (a) prior to the occurrence of an LLP Event of Default, on the later of: (i) the date on which the Scheduled Payment Date

in respect of such Guaranteed Amounts is reached, or, if later, the day which is two Business Days following service of a Notice to Pay on the LLP in respect of such Guaranteed Amounts or if the applicable Final Terms specified that an Extended Due for Payment Date is applicable to the relevant Series of Covered Bonds, the Interest Payment Date that would have applied if the Final Maturity Date of such Series of Covered Bonds had been the Extended Due for Payment Date (the **Original Due for Payment Date**); and

(ii) in relation to any Guaranteed Amounts in respect of the Final Redemption Amount payable on the Final Maturity Date for a Series of Covered Bonds only, the Extended Due for Payment Date, but only (A) if in respect of the relevant Series of Covered Bonds the Covered Bond Guarantee is subject to an Extended Due for Payment Date pursuant to the terms of the applicable Final Terms and (B) to the extent that the LLP having received a Notice to Pay no later than the date falling one Business Day prior to the Extension Determination Date does not pay Guaranteed Amounts equal to the Final Redemption Amount in respect of such Series of Covered Bonds by the Extension Determination Date, as the LLP has insufficient moneys available under the Guarantee Priority of Payments to pay such Guaranteed Amounts in full on the earlier of (1) the date which falls two Business Days after service of such Notice to pay on the LLP or, if later, the Final Maturity Date (or, in each case, after the expiry of the grace period set out in Condition 9.2(a)) under the terms of the Covered Bond Guarantee or (2) the Extension Determination Date,

or, if, in either case, such day is not a Business Day, the next following Business Day. For the avoidance of doubt, Due for Payment does not refer to any earlier date upon which payment of any Guaranteed Amounts may become due under the guaranteed obligations, by reason of prepayment, acceleration of maturity, mandatory or optional redemption or otherwise; or

(b) following the occurrence of an LLP Event of Default, the date on which an LLP Acceleration Notice is served on the Issuer and the LLP;

Earliest Maturing Covered Bonds At any time, the Series of the Covered Bonds (other than any Series which is fully collateralised by amounts standing to the credit of the GIC Account) that has or have the earliest Final

	Maturity Date as specified in the applicable Final Terms (ignoring any acceleration of amounts due under the Covered Bonds prior to the occurrence of an LLP Event of Default);
Early Redemption Amount	The meaning given in the relevant Final Terms;
Eligibility Criteria	The meaning given on page 247;
English Loans	Loans secured by a Mortgage over a Property located in England or Wales;
English Mortgage	A Mortgage over a Property located in England or Wales;
Equity Linked Covered Bonds	Covered Bonds in respect of which payments will be calculated by reference to the price, value, performance or some other factor relating to one or more Reference Assets, as set out in the applicable Final Terms;
EU	European Union;
EURIBOR	Euro-zone inter-bank offered rate;
Euroclear	Euroclear Bank S.A./N.V.;
Excess Hedge Collateral	In respect of a Covered Bond Swap Provider, (a) any Return Amount (as defined in the applicable Covered Bond Swap Agreement), (b) any distributions or interest on Swap Collateral provided by that Covered Bond Swap Provider, (c) any amount of Swap Collateral (or equivalent Swap Collateral) not included in the preceding clauses (a) and (b) that the Covered Bond Swap Provider is entitled to have transferred to it in accordance with the terms of the applicable Covered Bond Swap Agreement and (d) any Swap Collateral in respect of that Covered Bond Swap Provider in excess of any termination amount due but unpaid by such Covered Bond Swap Provider (if any) on termination of the transactions under the applicable Covered Bond Swap Agreement;
Excess Proceeds	Moneys received (following the occurrence of an Issuer Event of Default and delivery of an Issuer Acceleration Notice) by the Bond Trustee from the Issuer or any administrator, administrative receiver, receiver, liquidator, trustee in sequestration or other similar official appointed in relation to the Issuer;
Exchange Act	US Securities Exchange Act of 1934, as amended;
Exchange Agent	Citibank N.A., London Branch in its capacity as exchange agent (which expression shall include any successor exchange agent);
Exchange Date	On or after the date which is 40 days after a Temporary Global Covered Bond is issued;

Exchange Event	In the case of Bearer Global Covered Bonds, the meaning given in *"Form of Covered Bonds"* on page 71 and, in the case of Registered Covered Bonds, the meaning given in *"Form of Covered Bonds"* on page 72;
Excluded Swap Termination Amount	In relation to a Swap Agreement, an amount equal to the amount of any termination payment due and payable (a) to the relevant Swap Provider as a result of a Swap Provider Default with respect to such Swap Provider or (b) to the relevant Swap Provider following a Swap Provider Downgrade Event with respect to such Swap Provider;
Existing Covered Bonds	The Covered Bonds of all Series then outstanding;
Extended Due for Payment Date	In relation to any Series of Covered Bonds, the date, if any, specified as such in the applicable Final Terms to which the payment of all or (as applicable) part of the Final Redemption Amount payable on the Final Maturity Date will be deferred in the event that the Final Redemption Amount is not paid in full on the Extension Determination Date;
Extension Determination Date	In respect of a Series of Covered Bonds, the date falling two Business Days after the expiry of seven days from (and including) the Final Maturity Date of such Series of Covered Bonds;
Extraordinary Resolution	A resolution of the holders of the Covered Bonds passed as such under the terms of the Trust Deed;
Final Maturity Date	The Interest Payment Date on which each Series of Covered Bonds will be redeemed at their Principal Amount Outstanding in accordance with the Conditions;
Final Redemption Amount	The meaning given in the relevant Final Terms;
Final Terms	Final terms which, with respect to Covered Bonds to be admitted to the Official List and admitted to trading by the London Stock Exchange, will be delivered to the UK Listing Authority and the London Stock Exchange on or before the date of issue of the applicable Tranche of Covered Bonds;
First Transfer Date	The date on which the Initial Portfolio was transferred to the LLP pursuant to the Mortgage Sale Agreement;
Fitch	Fitch Ratings Ltd.;
Fixed Interest Period	The meaning given in Condition 4.1 (Interest on Fixed Rate Covered Bonds) in *"Terms and Conditions of the Covered Bonds"* on page 97;
Fixed Rate Covered Bonds	Covered Bonds paying a fixed rate of interest on such date or dates as may be agreed between the Issuer and the relevant Dealer(s) and on redemption calculated on the basis of such

	Day Count Fraction as may be agreed between the Issuer and the relevant Dealer(s);
Flexible Advance	A Loan for unrestricted purposes (which may be CCA regulated) offered to Borrowers with existing Loans (other than a Flexible Advance) from the Seller which is secured on the same Property which secures the Borrower's existing Loan. Some Flexible Advances permit the Borrower to make further draws up to the fixed credit limit extended under the Mortgage Conditions at the inception of the Flexible Advance;
Flexible Loan	A type of Loan product that typically incorporates features that give the Borrower options (which may be subject to certain conditions) to, among other things, make further drawings on the Loan Account and/or to overpay or underpay interest and principal in a given month and/or take a Payment Holiday;
Flexible Re-draw Capacity	The meaning given in *"Credit Structure"* on page 263;
Floating Rate	The meaning given in the ISDA Definitions;
Floating Rate Convention	The meaning given in *"Terms and Conditions of the Covered Bonds"* on page 98;
Floating Rate Covered Bonds	Covered Bonds which bear interest at a rate determined: (a) on the same basis as the floating rate under a notional interest rate swap transaction in the relevant Specified Currency governed by an agreement incorporating the ISDA Definitions; or (b) on the basis of a reference rate appearing on the agreed screen page of a commercial quotation service; or (c) on such other basis as may be agreed between the Issuer and the relevant Dealer(s), as set out in the applicable Final Terms;
Floating Rate Option	The meaning given in the ISDA Definitions;
Following Business Day Convention	The meaning given in *"Terms and Conditions of the Covered Bonds"* on page 98;
Framework	Framework issued by the Basel Committee on Banking Supervision under the title "International Convergence of Capital Measurement and Capital Standards: A Revised Framework (Comprehensive Version)";
FSA	Financial Services Authority;
FSMA 2000	Financial Services and Markets Act 2000, as amended;

Funding and Mutual Societies Transfers Act	Building Societies (Funding) and Mutual Societies (Transfers) Act 2007;
Further Advance	In relation to a Loan, any advance of further money to the relevant Borrower following the making of the Initial Advance, which is secured by the same Mortgage as the Initial Advance, excluding the amount of any retention in respect of the Initial Advance and excluding any Redraw in respect of any Flexible Loan or Further Draw in respect of any Flexible Advance;
Further Draws	Additional amounts Borrowers are permitted to draw under Flexible Advances (in aggregate up to the fixed credit limit under the Mortgage Conditions);
GIC Account	The account in the name of the LLP held with the Account Bank and maintained subject to the terms of the Guaranteed Investment Contract, the Bank Account Agreement and the Deed of Charge or such additional or replacement account as may be for the time being in place with the prior consent of the Security Trustee;
GIC Provider	Nationwide, in its capacity as GIC provider under the Guaranteed Investment Contract together with any successor GIC provider appointed from time to time;
Global Covered Bond	A Bearer Global Covered Bond and/or Registered Global Covered Bond, as the context may require;
Guaranteed Amounts	Prior to the service of an LLP Acceleration Notice, with respect to any Original Due for Payment Date or, if applicable, any Extended Due for Payment Date, the sum of Scheduled Interest and Scheduled Principal, in each case, payable on that Original Due for Payment Date or, if applicable, any Extended Due for Payment Date, or after service of an LLP Acceleration Notice, an amount equal to the relevant Early Redemption Amount as specified in the Conditions plus all accrued and unpaid interest and all other amounts due and payable in respect of the Covered Bonds, including all Excluded Scheduled Interest Amounts, and Excluded Scheduled Principal Amounts (whenever the same arose) and all amounts payable by the LLP under the Trust Deed;
Guaranteed Investment Contract or **GIC**	The guaranteed investment contract dated the Initial Programme Date (as amended and/or supplemented and/or restated from time to time) between the LLP, the GIC Provider, the Security Trustee and the Cash Manager;
Guarantee Priority of Payments	The meaning given in *"Cashflows"* on page 289;
Hard Bullet Covered Bonds	The meaning given in "*Credit Structure – Pre-Maturity Liquidity*" on page 280;
HMRC	HM Revenue & Customs;

HMSS	The meaning given on page 62;
Holders of the Covered Bonds	The holders for the time being of the Covered Bonds;
Holdings	Moulton Capital Finance (Holdings) Limited, a special purpose vehicle incorporated in England and Wales as a private limited company (registered no. 5372200);
IAI Investment Letter	The meaning given in Condition 2.5 (Transfers of interests in Regulation S Global Covered Bonds) in *"Terms and Conditions of the Covered Bonds"* on page 94;
ICTA	Income and Corporation Taxes Act 1988;
Index Linked Covered Bonds	Index Linked Redemption Covered Bonds and Index Linked Interest Covered Bonds;
Index Linked Interest Covered Bonds	Covered Bonds in respect of which payments of interest will be calculated by reference to such index and/or formula or to changes in the prices of securities or commodities or to such other factors as the Issuer and the relevant Dealer(s) may agree;
Index Linked Redemption Covered Bonds	Covered Bonds in respect of which payments of principal will be calculated by reference to such index and/or formula or to changes in the prices of securities or commodities or to such other factors as the Issuer and the relevant Dealer(s) may agree;
Indexed Valuation	At any date in relation to any Loan secured over any Property: (a) where the Latest Valuation of that Property is equal to or greater than the Nationwide Price Indexed Valuation as at that date, the Nationwide Price Indexed Valuation; or (b) where the Latest Valuation of that Property is less than Nationwide Price Indexed Valuation as at that date, the Latest Valuation plus 85% of the difference between the Latest Valuation and the Nationwide Price Indexed Valuation;
Indirect Participants	The meaning given in *Book-Entry Clearance Systems* on page 309;
Initial Advance	In respect of any Loan, the original principal amount advanced by the Seller to the relevant Borrower;
Initial Portfolio	The meaning given in *"The Portfolio"* on page 295;
Initial Programme Date	30 November 2005;
Insolvency Act	Insolvency Act 1986, as amended;
Insolvency Event	In respect of the Seller, the Servicer or the Cash Manager:

(a) an order is made or an effective resolution passed for the winding up of the relevant entity; or

(b) the relevant entity stops or threatens to stop payment to its creditors generally or the relevant entity ceases or threatens to cease to carry on its business or substantially the whole of its business; or

(c) an encumbrancer takes possession or a receiver, administrator, administrative receiver or other similar officer is appointed to the whole or any material part (having an aggregate book value in excess of £40,000,000) of the undertaking, property and assets of the relevant entity or a distress, diligence or execution is levied in respect of a claim for £40,000,000 or more or enforced upon or sued out against the whole or any material part (having an aggregate book value in excess of £40,000,000) of the chattels or property of the relevant entity and, in the case of any of the foregoing events, is not discharged within 30 days; or

(d) the relevant entity is unable to pay its debts as they fall due;

Insolvency (Northern Ireland) Order Insolvency (Northern Ireland) Order 1989, as amended by the Insolvency (Northern Ireland) Order 2005;

Instalment Covered Bonds Covered Bonds which will be redeemed in the Instalment Amounts and on the Instalment Dates specified in the applicable Final Terms;

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

Insurance Policies Each of:

(a) the Properties in Possession Policies; and

(b) Buildings Insurance Policies arranged for Borrowers by the Seller;

Intercompany Loan Agreement The term loan agreement dated the Initial Programme Date as amended and restated on 30 April 2008 (as amended and/or supplemented and/or restated from time to time) between the Issuer, the LLP and the Security Trustee;

Interest Amount The amount of interest payable on the Floating Rate Covered Bonds or Index Linked Interest Covered Bonds in respect of each Specified Denomination for the relevant Interest Period;

Interest Payment Date In relation to any Series of Covered Bonds, the Specified Interest Payment Date or the meaning given in the applicable

	Final Terms (as the case may be);
Interest Period	The period from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date;
Interest Rate Covered Bond Swap	Each interest rate swap transaction entered into between the LLP and a Covered Bond Swap Provider;
Interest Rate Swaps	The Jumbo Interest Rate Swaps and the Reset Interest Rate Swaps governed by the Interest Rate Swap Agreement (and Interest Rate Swap means any one of them);
Interest Rate Swap Agreement	The agreement dated on or about the Initial Programme Date as amended and restated on 3 April 2009 and 18 December 2009 (as the same may be amended and/or supplemented and/or restated from time to time) between the LLP, the Interest Rate Swap Provider and the Security Trustee governing the Interest Rate Swap in the form of an ISDA Master Agreement, including a schedule, credit support annex and confirmations thereto;
Interest Rate Swap Early Termination Event	The meaning given in *"Summary of the Principal Documents"* on page 272;
Interest Rate Swap Provider	Nationwide, in its capacity as interest rate swap provider under the Interest Rate Swap Agreement together with any successor interest rate swap provider;
Investment Company Act	The meaning given on page 26;
Investor Report	The quarterly report made available to the holders of the Covered Bonds, the Security Trustee, the Bond Trustee and the Rating Agencies detailing *inter alia* compliance with the Asset Coverage Test. Investor Reports shall be posted on the Nationwide website;
ISDA	International Swaps and Derivatives Association, Inc.;
ISDA Definitions	2000 ISDA Definitions, as published by ISDA;
ISDA Master Agreement	The 1992 ISDA Master Agreement (Multicurrency Cross Border), as published by ISDA;
ISDA Rate	The meaning given in *"Terms and Conditions of the Covered Bonds"* on page 99;
Issue Date	Each date on which the Issuer issues Covered Bonds to holders of the Covered Bonds;
Issuer	Nationwide Building Society, a building society incorporated in England and Wales under the Building Societies Act 1986 (as amended), whose principal office is Nationwide House, Pipers Way, Swindon, SN38 1NW;

Issuer Acceleration Notice	The meaning given in Condition 9.1 (Issuer Events of Default) in *"Terms and Conditions of the Covered Bonds"* on page 115;
Issuer Event of Default	The meaning given in Condition 9.1 (Issuer Events of Default) in *"Terms and Conditions of the Covered Bonds"* on page 116;
Issuer Subordinated Loan	The meaning given in "*Summary of the Principal Documents*" on page 259;
Jumbo Interest Rate Swaps	The two interest rate swaps entered into between the LLP, Nationwide (in its capacity as Interest Rate Swap Provider) and the Security Trustee on or about 3 April 2009 pursuant to the amendment of certain pre-existing interest rate swaps (as the same may be amended, restated, supplemented, replaced or novated from time to time), and **Jumbo Interest Rate Swap** means any one of them;
Latest Valuation	In relation to any Property, the value given to that Property by the most recent valuation addressed to the Seller;
Ledger	Each of the Revenue Ledger, the Principal Ledger, the Reserve Ledger, the Pre-Maturity Liquidity Ledger, the Capital Account Ledger and the Covered Bond Swap Collateral Account Ledgers;
Legended Covered Bonds	The meaning given in Condition 2 (Transfers of Registered Covered Bonds) in *"Terms and Conditions of the Covered Bonds"* on page 95;
Lending Criteria	The lending criteria of the Seller from time to time, or such other criteria as would be acceptable to a Reasonable, Prudent Mortgage Lender;
LIBOR	London inter-bank offered rate;
Liquidation Member	Moulton Capital Finance Limited, a special purpose vehicle incorporated in England and Wales as a private limited company (registered no. 5372384);
LLP	Nationwide Covered I[A9.4.1.1] LP, a limited liability partnership incorporated in England and Wales (registered no. OC 313878), whose first members are Nationwide and the Liquidation Member;
LLPA 2000	Limited Liability Partnerships Act 2000;
LLP Acceleration Notice	A notice in writing given by the Bond Trustee to the Issuer and the LLP, that each Covered Bond of each Series is, and each Covered Bond of each Series shall as against the Issuer (if not already due and repayable against it following an Issuer Event of Default) and as against the LLP, thereupon immediately become, due and repayable at its Early Redemption Amount together with accrued interest as provided in and in accordance

	with the Trust Deed and thereafter the Security shall become enforceable if any of the LLP Events of Default shall occur and be continuing;
LLP Accounts	The GIC Account, the Transaction Account, each Covered Bond Swap Collateral Account (to the extent maintained) and any additional or replacement accounts opened in the name of the LLP, including the Stand-by GIC Account, the Stand-by Transaction Account and each Stand-by Covered Bond Swap Collateral Account;
LLP Deed	The limited liability partnership deed entered into on the Initial Programme Date as amended and restated on 21 February 2007, 30 November 2007, 30 April 2008, 19 June 2008 and 18 December 2009 between the LLP, Nationwide, the Liquidation Member, the Bond Trustee and the Security Trustee;
LLP Event of Default	The meaning given in Condition 9.2 (LLP Events of Default) in *"Terms and Conditions of the Covered Bonds"* on page 118;
LLP Management Committee	The Management Committee which will act on behalf of the LLP and to which (other than any decision to approve the audited accounts of the LLP or to make a resolution for the voluntary winding up of the LLP, which requires a unanimous decision of the Members) the Members delegate all matters;
LLP Payment Date	The 17th day of each month or if not a Business Day the next following Business Day;
LLP Payment Period	The period from (and including) an LLP Payment Date to (but excluding) the next following LLP Payment Date;
Loan	Any mortgage loan (including, for the avoidance of doubt, any Scottish Loan and any Northern Irish Loan) which is sold and assigned by the Seller to the LLP from time to time under the terms of the Mortgage Sale Agreement and referenced by its mortgage loan identifier number and comprising the aggregate of all principal sums, interest, costs, charges, expenses and other moneys (including all Additional Loan Advances) due or owing with respect to that mortgage loan under the relevant Mortgage Conditions by a Borrower on the security of a Mortgage from time to time outstanding, or, as the context may require, the Borrower's obligations in respect of the same but excluding any mortgage loan which is repurchased by the Seller or otherwise sold by the LLP and no longer beneficially owned by it;
Loan Account	As the context requires, either (a) all Loans secured on the same Property or (b) an account maintained by the Servicer in respect of a particular Loan (whether by way of principal, interest or otherwise) and all amounts received in respect thereof;
Loan Files	The file or files relating to each Loan (including files kept in microfiche format or similar electronic data retrieval system) containing *inter alia* correspondence between the Borrower and

	the Seller and including the mortgage documentation applicable to the Loan, each letter of offer for that Loan, the Valuation Report (if applicable) and, to the extent available, the solicitor's or licensed conveyancer's, or (in Scotland) qualified conveyancer's, Certificate of Title;
Loan Without Independent Valuation	A Loan which was not the subject of a Valuation Report by reason of the relevant loan-to-value ratio being less than 40% or where an updated Valuation Report was not obtained in relation to an Additional Loan Advance;
London Business Day	A day (other than a Saturday or Sunday) on which banks and foreign exchange markets are open for general business in London;
London Stock Exchange	London Stock Exchange plc;
Long Maturity Covered Bond	A Fixed Rate Covered Bond (other than a Fixed Rate Covered Bond which on issue had a Talon attached) whose nominal amount on issue is less than the aggregate interest payable thereon provided that such Covered Bond shall cease to be a Long Maturity Covered Bond on the Interest Payment Date on which the aggregate amount of interest remaining to be paid after that date is less than the Principal Amount Outstanding of such Covered Bond;
Losses	All realised losses on the Loans;
Master Definitions and Construction Agreement	The master definitions and construction agreement dated on or about the Initial Programme Date as amended and restated on 27 November 2006, 25 June 2007, 30 November 2007, 30 April 2008, 19 June 2008, 3 July 2009 and 18 December 2009 (as further amended and/or supplemented and/or restated from time to time) made between the parties to the Transaction Documents;
MCOB	Mortgages and Home Finance: Conduct of Business Sourcebook, implemented by the FSA on 31 October 2004 as amended, revised or supplemented from time to time;
Member	Each member of the LLP;
Member States	Member States of the European Community;
MHA Documentation	An affidavit, consent or renunciation granted in terms of the Matrimonial Homes (Family Protection) (Scotland) Act 1981 in connection with a Scottish Mortgage or the Property secured thereby;
Modified Following Business Day Convention	The meaning given in Condition 4 (Interest) in *"Terms and Conditions of the Covered Bonds"* on page 98;

Monthly Payment Date	In relation to a Loan, the date in each month on which the relevant Borrower is required to make a payment of interest and, if applicable, principal for that Loan, as required by the applicable Mortgage Conditions;
Moody's	Moody's Investors Service Limited;
Mortgage	(a) In respect of any Loan (other than any Flexible Advance related to a Loan entered into before 1 September 2002) each first charge by way of legal mortgage (in relation to an English Loan), each first legal charge or mortgage (in relation to a Northern Irish Loan) and each first ranking standard security (in relation to a Scottish Loan), sold by the Seller to the LLP pursuant to the Mortgage Sale Agreement, in either case which secures the repayment of the relevant Loan including the Mortgage Conditions applicable to it and (b) in respect of any Flexible Advance related to a Loan entered into before 1 September 2002, the second or later ranking legal charge over the English Property or Northern Irish Property or the second or later ranking standard security over the Scottish Property;
Mortgage Conditions	All the terms and conditions applicable to a Loan, including without limitation those set out in the Seller's relevant mortgage conditions booklet and the Seller's relevant general conditions, each as varied from time to time by the relevant mortgage loan agreement and the relevant Mortgage Deed;
Mortgage Deed	In respect of any Mortgage, the deed creating that Mortgage;
Mortgage Sale Agreement	The mortgage sale agreement dated the Initial Programme Date and as amended and restated on 30 April 2008, 1 December 2008 and 18 December 2009 (as amended and/or supplemented and/or restated from time to time) entered into between the Seller, the LLP and the Security Trustee;
N(M)	A further stage of the FSMA 2000 which came into effect on 31 October 2004;
Nationwide	Nationwide Building Society, a building society incorporated in England and Wales under the Building Societies Act 1986 (as amended), whose principal office is Nationwide House, Pipers Way, Swindon, SN38 1NW;
Nationwide Group	Nationwide and its Subsidiaries collectively;
Nationwide Index	The index of increases or decreases in house prices issued by Nationwide in relation to residential properties in the United Kingdom;
Nationwide Price Indexed Valuation	In relation to any Property at any date means the Latest Valuation of that property increased or decreased as appropriate by the increase or decrease in the Nationwide Index since the date of that Latest Valuation;

Negative Carry Factor	The meaning given on page 262;
New Global Covered Bond	A Temporary Global Covered Bond in the form set out in Part A of Schedule 2 to the Trust Deed or a Permanent Global Covered Bond in the form set out in Part B of Schedule 2 to the Trust Deed, in either case where the applicable Final Terms specify that the Covered Bonds are in New Global Covered Bond form;
New Loan	Loans, other than the Loans comprised in the Initial Portfolio, which the Seller may assign or transfer to the LLP after the First Transfer Date pursuant to the Mortgage Sale Agreement;
New Loan Type	A new type of mortgage loan originated or acquired by the Seller, which the Seller intends to transfer to the LLP, the terms and conditions of which are materially different (in the opinion of the Seller, acting reasonably) from the Loans. For the avoidance of doubt, a mortgage loan will not constitute a New Loan Type if it differs from the Loans due to it having different interest rates and/or interest periods and/or time periods for which it is subject to a fixed rate, capped rate, tracker rate or any other interest rate or the benefit of any discounts, cash-backs and/or rate guarantees;
New Member	Any new member admitted to the LLP after the Programme Date;
New Portfolio	The meaning given in *"The Portfolio"* on page 295;
New Portfolio Notice	A notice in the form set out in Schedule 11 to the Mortgage Sale Agreement served in accordance with the terms of the Mortgage Sale Agreement;
New Seller	Any member of the Nationwide Group (other than Nationwide) that is a "connected person" as defined in Regulation 5 of the RCB Regulations and that accedes to the relevant Transaction Documents and sells Loans and their Related Security to the LLP in the future;
NIPs	Non-Investment Products Code;
Non-cash Re-draws	Authorised Underpayments or Payment Holidays under Flexible Loans included in the Portfolio, which will result in the Seller being required to pay to the LLP an amount equal to the unpaid interest associated with that Authorised Underpayment or Payment Holiday;
Northern Irish Loans	Loans secured by Northern Irish Mortgages;
Northern Irish Mortgage	A Mortgage over a Property located in Northern Ireland;
Notice to Pay	The meaning given in Condition 9.1 (Issuer Events of Default) in *"Terms and Conditions of the Covered Bonds"* on page 117;

Official List	Official list of the UK Listing Authority;
OFT	Office of Fair Trading;
Ombudsman	Financial Ombudsman Service under the FSMA 2000;
Order	Financial Services and Markets Act 2000 (Regulated Activities) Order 2001 (SI 2001/544), as amended;
Original Due for Payment Date	The meaning given in paragraph (a)(i) of the definition of **Due for Payment**;
Overpayment	A payment by a Borrower in an amount greater than the amount due on a Monthly Payment Date which (a) is permitted by the terms of such Loan or by agreement with the Borrower and (b) reduces the True Balance of such Loan;
Partial Portfolio	Part of any portfolio of Selected Loans;
Partly Paid Covered Bonds	Covered Bonds which are only partly paid up on issue, in respect of which interest will accrue in accordance with Condition 4.4 (Interest on Partly Paid Covered Bonds) on the paid-up amount of such Covered Bonds or on such other basis as may be agreed between the Issuer and the relevant Dealer(s) and indicated in the applicable Final Terms;
Paying Agents	The meaning given in *"Terms and Conditions of the Covered Bonds"* on page 89;
Payment Day	The meaning given in Condition 5 (Payments) in *"Terms and Conditions of the Covered Bonds"* on page 106;
Payment Holiday	The right of a Borrower, under the applicable Mortgage Conditions, to not make a monthly payment for one or more months in certain circumstances;
Permanent Global Covered Bond	The meaning given in *"Form of the Covered Bonds"* on page 70;
Portfolio	The Initial Portfolio and each New Portfolio acquired by the LLP;
Post-Enforcement Priority of Payments	The meaning given in *"Cashflows"* on page 292;
Potential Issuer Event of Default	The meaning given in Condition 14 (Meetings of holders of the Covered Bonds, Modification, Waiver and Substitution) in *"Terms and Conditions of the Covered Bonds"* on page 125;
Potential LLP Event of Default	The meaning given in Condition 14 (Meetings of holders of the Covered Bonds, Modification, Waiver and Substitution) in *"Terms and Conditions of the Covered Bonds"* on page 125;
Pre-Acceleration Principal Priority of Payments	The meaning given in *"Cashflows"* on page 287;

Pre-Acceleration Revenue Priority of Payments	The meaning given in *"Cashflows"* on page 284;
Preceding Business Day Convention	The meaning given in Condition 4.2 (Interest on Floating Rate Covered Bonds and Index Linked Interest Covered Bonds) in *"Terms and Conditions of the Covered Bonds"* on page 99;
Pre-Maturity Liquidity Ledger	The ledger on the GIC Account maintained by the Cash Manager pursuant to the Cash Management Agreement to record the credits and debits of moneys available to repay any Series of Hard Bullet Covered Bonds on the Final Maturity Date thereof if the Pre-Maturity Test has been breached;
Pre-Maturity Test	The meaning given in "*Credit Structure – Pre-Maturity Liquidity*" on page 280;
Pre-Maturity Test Date	The meaning given in "*Credit Structure – Pre-Maturity Liquidity*" on page 280;
Principal Amount Outstanding	In respect of a Covered Bond, the principal amount of that Covered Bond on the relevant Issue Date thereof less principal amounts received by the relevant holder of the Covered Bond in respect thereof;
Principal Ledger	The ledger on the GIC Account of such name maintained by the Cash Manager pursuant to the Cash Management Agreement to record the credits and debits of Principal Receipts in accordance with the terms of the LLP Deed;
Principal Paying Agent	The meaning given in *"Terms and Conditions of the Covered Bonds"* on page 89;
Principal Receipts	(a) principal repayments under the Loans (including payments of arrears, Capitalised Interest, Capitalised Expenses and Capitalised Arrears); (b) recoveries of principal from defaulting Borrowers under Loans being enforced (including the proceeds of sale of the relevant Property); (c) any payment pursuant to any insurance policy in respect of a Property in connection with a Loan in the Portfolio; and (d) the proceeds of the repurchase of any Loan by the Seller from the LLP pursuant to the Mortgage Sale Agreement (including, for the avoidance of doubt, amounts attributable to Accrued Interest and Arrears of Interest thereon as at the relevant repurchase date);
Priorities of Payments	The orders of priority for the allocation and distribution of amounts standing to the credit of the LLP Accounts (except for the Covered Bond Swap Collateral Accounts and the Stand-by

	Covered Bond Swap Collateral Accounts) in different circumstances;
Product Switch	A variation to the financial terms or conditions included in the Mortgage Conditions applicable to a Loan other than: (a) any variation agreed with a Borrower to control or manage arrears on a Loan; (b) any variation in the maturity date of a Loan; (c) any variation imposed by statute or any variation in the frequency with which the interest payable in respect of the Loan is charged;
Programme	Nationwide's €45 billion Covered Bond Programme;
Programme Agreement	The meaning given in *"Subscription and Sale and Transfer and Selling Restrictions"* on page 327;
Programme Date	1 July 2010;
Programme Resolution	Any Extraordinary Resolution to direct the Bond Trustee to accelerate the Covered Bonds pursuant to Condition 9 (Events of Default and Enforcement) or to direct the Bond Trustee or the Security Trustee to take any enforcement action;
Properties in Possession Policies	The properties in possession policy written by Churchill Insurance Company Limited in favour of the Seller and any endorsements or extensions thereto as issued from time to time, or any such similar alternative or replacement properties in possession policy or policies as may be effected from time to time to cover a Seller in respect of Loans and their Related Security, such other properties in possession policy or policies to provide such level of cover as would be acceptable to a Reasonable, Prudent Mortgage Lender at the date of such other policy or policies;
Property	A freehold or leasehold property (or in Scotland a heritable property or a property held under a long lease) which is subject to a Mortgage;
Purchaser	Any third party or the Seller to whom the LLP offers to sell Selected Loans;
QIB	A "qualified institutional buyer" within the meaning of Rule 144A;
Rating Agencies	Moody's, S&P and Fitch, and each a **Rating Agency**;
Rating Agency Confirmation	A confirmation in writing by each of the Rating Agencies that the then current ratings of the Covered Bonds will not be adversely affected by or withdrawn as a result of the relevant event or matter;

RCB Regulations	Regulated Covered Bonds Regulations 2008 (SI 2008/346);
RCB Sourcebook	FSA Regulated Covered Bond Specialist Sourcebook 2008;
Reasonable, Prudent Mortgage Lender	The Seller and/or the Servicer, as applicable, acting in accordance with the standards of a reasonably prudent residential mortgage lender lending to borrowers in England, Wales, Scotland and/or Northern Ireland who generally satisfy the lending criteria of traditional sources of residential mortgage capital;
Receiptholders	The holders of the Receipts;
Receipts	The meaning given in *"Terms and Conditions of the Covered Bonds"* on page 90;
Record Date	The meaning given in Condition 5 (Payments) in *"Terms and Conditions of the Covered Bonds"* on page 105;
Redeemed Covered Bonds	The meaning given in Condition 5 (Payments) in *"Terms and Conditions of the Covered Bonds"* on page 111;
Re-draw	Either a Cash Re-draw or a Non-cash Re-draw;
Reference Assets	In respect of Equity Linked Covered Bonds, shares or other securities as indicated in the applicable Final Terms;
Reference Entities	In respect of Credit Linked Covered Bonds, entities as indicated in the applicable Final Terms;
Reference Lenders	The banks and building societies specified as the Reference Lenders in the Interest Rate Swap Agreement;
Register	The register of holders of the Registered Covered Bonds maintained by the Registrar;
Registered Covered Bonds	Covered Bonds in registered form;
Registered Definitive Covered Bond	A Registered Covered Bond in definitive form issued or, as the case may require, to be issued by the Issuer in accordance with the provisions of the Programme Agreement or any other agreement between the Issuer and the relevant Dealer(s), the Agency Agreement and the Trust Deed either on issue or in exchange for a Registered Global Covered Bond or part thereof (all as indicated in the applicable Final Terms), such Registered Covered Bond in definitive form being in the form or substantially in the form set out in Part 9 of Schedule 2 to the Trust Deed with such modifications (if any) as may be agreed between the Issuer, the Principal Paying Agent, the Bond Trustee and the relevant Dealer(s) and having the Conditions endorsed thereon or, if permitted by the relevant Stock

	Exchange, incorporating the Conditions by reference (where applicable to the Trust Deed) as indicated in the applicable Final Terms and having the relevant information supplementing, replacing or modifying the Conditions appearing in the applicable Final Terms endorsed thereon or attached thereto and having a Form of Transfer endorsed thereon;
Registered Global Covered Bonds	The Rule 144A Global Covered Bonds together with the Regulation S Global Covered Bonds;
Registers of Northern Ireland	The Land Registry of Northern Ireland and/or the Registry of Deeds in Belfast;
Registers of Scotland	The Land Register of Scotland and the General Register of Sasines;
Registrar	Citibank N.A., London Branch, 21st floor, Citigroup Centre, Canada Square, Canary Wharf, London E14 5LB in its capacity as registrar (and any successor registrar);
Regulated Covered Bonds	Covered Bonds that have been admitted to the register of covered bonds maintained by the FSA pursuant to the RCB Regulations;
Regulated Mortgage Contract	The meaning given in *"Regulatory changes by the FSA, the OFT and any other regulatory authorities"* on page 59;
Regulation S	Regulation S under the Securities Act;
Regulation S Covered Bond	The meaning given in *"Subscription and Sale and Transfer and Selling Restrictions"* on page 331;
Regulation S Global Covered Bond	The meaning given in *"Form of Covered Bonds"* on page 71;
Related Security	In relation to a Loan, the security for the repayment of that Loan including the relevant Mortgage and all other matters applicable thereto acquired as part of the Portfolio;
Relevant Date	The meaning given in Condition 7 (Taxation) in *"Terms and Conditions of the Covered Bonds"* on page 115;
Representations and Warranties	The representations and warranties set out in Schedule 1 (Representations and Warranties) to the Mortgage Sale Agreement;
Repurchase Notice	A notice from the Cash Manager to the Seller identifying a Loan or its Related Security in the Portfolio which does not, as at the relevant Transfer Date or relevant Calculation Date (in the case of an Additional Loan Advance), materially comply with the Representations and Warranties set out in the Mortgage Sale Agreement;
Required Redemption Amount	The meaning given in *"Summary of the Principal Documents"*

on page 253;

Required True Balance Amount — The meaning given in *"Summary of the Principal Documents"* on page 265;

Reserve Fund — The reserve fund that the LLP will be required to establish in the GIC Account which will be credited with part of a Term Advance (in the LLP's discretion) and the proceeds of Available Revenue Receipts up to an amount equal to the Reserve Fund Required Amount;

Reserve Fund Required Amount — If the Issuer's short-term, unsecured, unsubordinated and unguaranteed debt obligations are rated at least A-1+ by S&P, F1+ by Fitch and P-1 by Moody's, nil or such other amount as Nationwide shall direct the LLP from time to time and otherwise an amount equal to the Sterling Equivalent of one month's interest due on each Series of Covered Bonds together with an amount equal to one-twelfth of the anticipated aggregate annual amount payable in respect of the items specified in paragraphs (i) to (ii) and if applicable (iv) of the Pre-Acceleration Revenue Priority of Payments plus £600,000;

Reserve Ledger — The ledger on the GIC Account of such name maintained by the Cash Manager pursuant to the Cash Management Agreement to record the crediting of Revenue Receipts to the Reserve Fund and the debiting of such Reserve Fund in accordance with the terms of the LLP Deed;

Reset Date — The meaning given in the ISDA Definitions;

Reset Interest Rate Swaps

(i) Each interest rate swap entered into between the LLP, Nationwide (in its capacity as Interest Rate Swap Provider) and the Security Trustee on or about 3 April 2009 pursuant to the amendment of certain pre-existing interest rate swaps (as the same may be amended, restated, supplemented, replaced or novated from time to time) in respect of a particular Series or Tranche of Covered Bonds; and

(ii) if required, each interest rate swap entered into between the LLP, Nationwide (in its capacity as Interest Rate Swap Provider) and the Security Trustee on or about the Issue Date of a particular Series or Tranche of Covered Bonds in respect of that Series or Tranche of Covered Bonds (as the same may be amended, restated, supplemented, replaced or novated from time to time);

Revenue Ledger — The ledger on the GIC Account of such name maintained by the Cash Manager pursuant to the Cash Management Agreement to record credits and debits of Revenue Receipts in accordance with the terms of the LLP Deed;

Revenue Receipts

(a) payments of interest (excluding Accrued Interest and Arrears of Interest as at the relevant Transfer Date of a

Loan) and other fees due from time to time under the Loans and other amounts received by the LLP in respect of the Loans other than the Principal Receipts;

(b) recoveries of interest from defaulting Borrowers under Loans being enforced; and

(c) recoveries of interest and/or principal from defaulting Borrowers under Loans in respect of which enforcement procedures have been completed;

Rule 144A Rule 144A under the Securities Act;

Rule 144A Global Covered Bond A Global Covered Bond in registered form representing the Registered Covered Bonds of a Tranche sold to QIBs pursuant to Rule 144A;

Rules The rules, regulations and procedures creating and affecting DTC and its operations;

S&P Standard & Poor's Rating Services;

Sale Proceeds The cash proceeds realised from the sale of Selected Loans and their Related Security;

Scheduled Interest An amount equal to the amount in respect of interest which would have been due and payable under the Covered Bonds on each Interest Payment Date as specified in Condition 4 (Interest) (but excluding any additional amounts relating to premiums, default interest or interest upon interest (**Excluded Scheduled Interest Amounts**) payable by the Issuer following an Issuer Event of Default but including such amounts (whenever the same arose) following service of an LLP Acceleration Notice) as if the Covered Bonds had not become due and repayable prior to their Final Maturity Date and, if the Final Terms specified that an Extended Due for Payment Date is applicable to the relevant Covered Bonds, as if the maturity date of the Covered Bonds had been the Extended Due for Payment Date (but taking into account any principal repaid in respect of such Covered Bonds or any Guaranteed Amounts paid in respect of such principal prior to the Extended Due for Payment Date), less any additional amounts the Issuer would be obliged to pay as a result of any gross-up in respect of any withholding or deduction made under the circumstances set out in Condition 7 (Taxation);

Scheduled Payment Date In relation to payments under the Covered Bond Guarantee, each Interest Payment Date or the Final Maturity Date as if the Covered Bonds had not become due and repayable prior to their Final Maturity Date;

Scheduled Principal An amount equal to the amount in respect of principal which would have been due and repayable under the Covered Bonds on each Interest Payment Date or the Final Maturity Date (as

	the case may be) as specified in Condition 6.1 (Final redemption) and Condition 6.4 (Redemption due to illegality) (but excluding any additional amounts relating to prepayments, early redemption, broken funding indemnities, penalties, premiums or default interest (**Excluded Scheduled Principal Amounts**) payable by the Issuer following an Issuer Event of Default but including such amounts (whenever the same arose) following service of an LLP Acceleration Notice) as if the Covered Bonds had not become due and repayable prior to their Final Maturity Date and, if the Final Terms specifies that an Extended Due for Payment Date is applicable to the relevant Covered Bonds, as if the maturity date of the Covered Bonds had been the Extended Due for Payment Date;
Scottish Declaration of Trust	Each declaration of trust in relation to Scottish Loans and their Related Security made pursuant to the Mortgage Sale Agreement by means of which the sale of such Scottish Loans and their Related Security by the Seller to the LLP and the transfer of the beneficial interest therein to the LLP are given effect;
Scottish Loans	Loans secured by Scottish Mortgages;
Scottish Mortgage	A Mortgage over a Property located in Scotland;
Scottish Sub-Security	Each standard security granted by the LLP in favour of the Security Trustee pursuant to Clause 3.3 of the Deed of Charge;
Scottish Supplemental Charge	Each supplemental assignation in security governed by Scots law granted by the LLP in favour of the Security Trustee pursuant to the Deed of Charge;
SEC	US Securities and Exchange Commission;
Secured Creditors	The Security Trustee (in its own capacity and on behalf of the other Secured Creditors), the Bond Trustee (in its own capacity and on behalf of the holders of the Covered Bonds), the holders of the Covered Bonds, the Receiptholders, the Couponholders, the Issuer, the Seller, the Servicer, the Account Bank, the GIC Provider, the Stand-by Account Bank, the Stand-by GIC Provider, the Cash Manager, the Swap Providers, the Corporate Services Providers, the Paying Agents and any other person which becomes a Secured Creditor pursuant to the Deed of Charge;
Securities Act	US Securities Act of 1933, as amended;
Securities and Exchange Law	The Securities and Exchange Law of Japan;
Security	The meaning given in *"Summary of the Principal Documents"* on page 276;
Security Trustee	Citicorp Trustee Company Limited, in its capacity as security trustee under the Trust Deed and the Deed of Charge together

with any successor security trustee appointed from time to time;

Selected Loan Offer Notice — A notice from the LLP served on the Seller offering to sell Selected Loans and their Related Security for an offer price equal to the greater of the then True Balance of the Selected Loans and the Adjusted Required Redemption Amount;

Selected Loan Repurchase Notice — A notice from the Seller served on the LLP accepting an offer set out in a Selected Loan Offer Notice;

Selected Loans — Loans and their Related Security to be sold by the LLP pursuant to the terms of the LLP Deed having in aggregate the Required True Balance Amount;

Selection Date — The meaning given in Condition 6 (Redemption and Purchase) in *"Terms and Conditions of the Covered Bonds"* on page 111;

Seller — Nationwide Building Society and any New Seller;

Series — A Tranche of Covered Bonds together with any further Tranche or Tranches of Covered Bonds which are (a) expressed to be consolidated and form a single series and (b) identical in all respects (including as to listing) except for their respective Issue Dates, Interest Commencement Dates and/or Issue Prices;

Series Reserved Matter — In relation to Covered Bonds of a Series:

(a) reduction or cancellation of the amount payable or, where applicable, modification of the method of calculating the amount payable or modification of the date of payment or, where applicable, modification of the method of calculating the date of payment in respect of any principal or interest in respect of the Covered Bonds;

(b) alteration of the currency in which payments under the Covered Bonds, Receipts and Coupons are to be made;

(c) alteration of the majority required to pass an Extraordinary Resolution;

(d) any amendment to the Covered Bond Guarantee or the Deed of Charge (except in a manner determined by the Bond Trustee not to be materially prejudicial to the interests of the holders of Covered Bonds of any Series);

(e) except in accordance with Condition 6.9 (Cancellation) or Condition 14 (Meetings of holders of the Covered Bonds, Modification, Waiver and Substitution), the sanctioning of any such scheme or proposal for the exchange or sale of the Covered Bonds for, or the conversion of the Covered Bonds into, or the cancellation of the Covered Bonds in consideration of,

shares, stock, covered bonds, bonds, debentures, debenture stock and/or other obligations and/or securities of the Issuer or any other company formed or to be formed, or for or into or in consideration of cash, or partly for or into or in consideration of such shares, stock, bonds, covered bonds, debentures, debenture stock and/or other obligations and/or securities as aforesaid and partly for or into or in consideration of cash and for the appointment of some person with power on behalf of the holders of Covered Bonds to execute an instrument of transfer of the Registered Covered Bonds held by them in favour of the persons with or to whom the Covered Bonds are to be exchanged or sold respectively; and

(f) alteration of the proviso to paragraph 5 or paragraph 6 of Schedule 4 to the Trust Deed;

Servicer Nationwide in its capacity as servicer under the Servicing Agreement together with any successor servicer appointed from time to time;

Servicer Event of Default The meaning given in *"Summary of the Principal Documents"* on page 257;

Servicer Termination Event The meaning given in *"Summary of the Principal Documents"* on page 257;

Servicing Agreement The servicing agreement dated the Initial Programme Date as amended and restated on 30 April 2008 (as amended and/or supplemented and/or restated from time to time) entered into between the LLP, the Servicer and the Security Trustee;

Share Trustee Wilmington Trust SP Services (London) Limited, having its registered office at Fifth Floor, 6 Broad Street Place, London EC2M 7JH;

SMR	The Seller's uncapped standard mortgage rate which was introduced in April 2009;
Society	Nationwide;
Soft Bullet Covered Bond	Any Covered Bond issued by the Issuer in respect of which the payment of the Final Redemption Amount may be deferred to an Extended Due for Payment Date falling after the Final Maturity Date, should the LLP have insufficient funds to pay such Final Redemption Amount on the Final Maturity Date of that Covered Bond;
Specified Currency	Subject to any applicable legal or regulatory restrictions, euro, Sterling, US Dollars and such other currency or currencies as may be agreed from time to time by the Issuer, the relevant Dealer(s), the Principal Paying Agent and the Bond Trustee and specified in the applicable Final Terms;
Specified Denomination	In respect of a Series of Covered Bonds, the denomination or denominations of such Covered Bonds specified in the applicable Final Terms;
Specified Interest Payment Date	The meaning given in the applicable Final Terms;
Specified Period	The meaning given in the applicable Final Terms;
Standard Documentation	The standard documentation, annexed to the relevant exhibit of the Mortgage Sale Agreement or any update or replacement therefor as the Seller may from time to time introduce acting in accordance with the standards of a Reasonable, Prudent Mortgage Lender;
Standard Variable Rate	The Nationwide BMR or SMR;
Stand-by Account Bank	The meaning given in *"Summary of the Principal Documents"* on page 275;
Stand-by Bank Account Agreement	The meaning given in *"Summary of the Principal Documents"* on page 275;
Stand-by Covered Bond Swap Collateral Account	Each custody or bank account of the LLP to be opened and maintained with the Stand-by Account Bank in accordance with and subject to the terms of the Stand-by Bank Account Agreement and the Deed of Charge or such additional or replacement account as may be for the time being in place with the prior consent of the Security Trustee and designated as such;
Stand-by GIC Account	The meaning given in *"Summary of the Principal Documents"* on page 275;
Stand-by GIC Provider	The meaning given in *"Summary of the Principal Documents"* on page 276;

Stand-by Guaranteed Investment Contract	The meaning given in *"Summary of the Principal Documents"* on page 276;
Stand-by Transaction Account	The meaning given on page 275;
Sterling Equivalent	In relation to a Term Advance which is denominated in (a) a currency other than Sterling, the Sterling equivalent of such amount ascertained using the relevant Covered Bond Swap Rate relating to such Term Advance and (b) Sterling, the applicable amount in Sterling;
Subsidiary	Any company which is for the time being a subsidiary (within the meaning of Section 1159 of the Companies Act 2006 of Great Britain);
Substitution Assets	Each of: (a) Sterling gilt-edged securities; (b) Sterling demand or time deposits, certificates of deposit, long-term debt obligations and short-term debt obligations (including commercial paper) provided that in all cases such investments have a remaining period to maturity of one year or less and the short-term unsecured, unguaranteed and unsubordinated debt obligations or, as applicable, the long-term unsecured, unguaranteed and unsubordinated debt obligations of the issuing or guaranteeing entity or the entity with which the demand or time deposits are made (being an authorised person under the FSMA 2000) are rated P1/Aa3 by Moody's, A-1+/AA- by S&P and F1+ by Fitch or their equivalents by three other internationally recognised rating agencies; (c) Sterling denominated government and public securities, as defined from time to time by the FSA, provided that such investments have a remaining period to maturity of one year or less and which are rated at least Aaa by Moody's, AAA by S&P and F1+ by Fitch or their equivalents by three other internationally recognised rating agencies; and (d) Sterling denominated residential mortgage backed securities provided that such investments have a remaining period to maturity of one year or less, are actively traded in a continuous, liquid market on a recognised stock exchange, are held widely across the financial system, are available in an adequate supply and which are rated at least Aaa by Moody's, AAA by S&P and F1+ by Fitch or their equivalents by three other internationally recognised rating agencies, provided that such Substitution Assets comply with the

	requirements of Regulation 2(1)(a) of the RCB Regulations;
sub-unit	With respect to any currency other than euro, the lowest amount of such currency that is available as legal tender in the country of such currency and, with respect to euro, euro 0.01;
Successor in Business	The meaning given in Condition 14 (Meetings of holders of the Covered Bonds, Modification, Waiver and Substitution) of the *"Terms and Conditions of the Covered Bonds"* on page 126;
Swap Agreements	The Covered Bond Swap Agreements together with the Interest Swap Agreement, and each a **Swap Agreement**;
Swap Collateral	At any time, any asset (including, without limitation, cash and/or securities) which is paid or transferred by a Swap Provider to the LLP as collateral to secure the performance by such Swap Provider of its obligations under the relevant Swap Agreement together with any income or distributions received in respect of such asset and any equivalent of such asset into which such asset is transformed;
Swap Collateral Available Amounts	On termination of a Swap Transaction, the amount of Swap Collateral which under the terms of the relevant Swap Agreement and following termination thereof may be applied at that time in satisfaction of the relevant Swap Provider's obligations to the LLP to pay any termination amount owing by such Swap Provider, to the extent such amount remains unpaid, and to the extent that such obligations relate to payments to be made in connection with the Pre-Acceleration Revenue Priority of Payments, the Pre-Acceleration Principal Priority of Payments or the Guarantee Priority of Payments;
Swap Provider Default	The occurrence of an Event of Default or Termination Event (each as defined in each of the Swap Agreements) where the relevant Swap Provider is the Defaulting Party or the sole Affected Party (each as defined in relevant Swap Agreement), as applicable, other than a Swap Provider Downgrade Event;
Swap Provider Downgrade Event	The occurrence of an Additional Termination Event or an Event of Default (each as defined in the relevant Swap Agreement) following a failure by the Swap Provider to comply with the requirements of the ratings downgrade provisions set out in the relevant Swap Agreement;
Swap Providers	Covered Bond Swap Providers and the Interest Swap Provider, and each a Swap Provider;
Swaps	The Covered Bond Swaps together with the Interest Rate Swaps;
Talons	The meaning given in *"Terms and Conditions of the Covered Bonds"* on page 90;

TARGET2 The Trans-European Automated Real-Time Gross Settlement Express Transfer payment system which utilises a single shared platform and which was launched on 19 November 2007, or any successor thereto;

Temporary Global Covered Bond The meaning given in *"Form of Covered Bonds"* on page 70;

Term Advance Each term advance made by the Issuer to the LLP from the proceeds of Covered Bonds pursuant to the Intercompany Loan Agreement;

Third Party Amounts Each of:

(a) payments of insurance premiums, if any, due to the Seller in respect of any Seller arranged insurance policy to the extent not paid or payable by the Seller (or to the extent such insurance premiums have been paid by the Seller in respect of any Further Advance which is not purchased by the Seller to reimburse the Seller);

(b) amounts under an unpaid direct debit which are repaid by the Seller to the bank making such payment if such bank is unable to recoup that amount itself from its customer's account;

(c) payments by the Borrower of any fees (including Early Repayment Fees) and other charges which are due to the Seller; and

(i) any amounts due or arising from any overpayment by any person or arising from any reimbursement by any person of any such overpayment (including, for the avoidance of doubt, where arising from the failure of a direct debit);

(ii) (subject to any right to refuse or withhold payment or of set-off that has arisen by reason of the Borrower's breach of the terms of the relevant Mortgage or Loan) any amount payable to a Borrower under the terms of the Mortgage or the Loan to which that Borrower is a party (other than a Further Advance);

(iii) any amounts owed to the Seller pursuant to Clause 6 (Trust of Monies) of the Mortgage Sale Agreement; and

(iv) any amount received from a Borrower for the express purpose of payment being made to a third party for the provision of a service (including giving insurance cover) to any of that Borrower or the Seller or the LLP,

which amounts may be paid daily from moneys on deposit in the GIC Account;

Title Deeds

In relation to each Loan and its Related Security and the Property relating thereto, all conveyancing deeds and documents which make up the title to the Property and the security for the Loan and all searches and enquiries undertaken in connection with the grant by the Borrower of the related Mortgage;

Transaction Account

The account designated as such in the name of the LLP held with the Account Bank and maintained subject to the terms of the Bank Account Agreement and the Deed of Charge or such other account as may for the time being be in place with the prior consent of the Security Trustee and designated as such;

Transaction Documents

(a) Mortgage Sale Agreement

(b) each Scottish Declaration of Trust

(c) Servicing Agreement

(d) Asset Monitor Agreement

(e) Intercompany Loan Agreement

(f) LLP Deed

(g) Cash Management Agreement

(h) the Interest Rate Swap Agreement

(i) each Covered Bond Swap Agreement

(j) Guaranteed Investment Contract

(k) Stand-by Guaranteed Investment Contract

(l) Bank Account Agreement

(m) Stand-by Bank Account Agreement

(n) Corporate Services Agreement

(o) Deed of Charge (and any documents entered into pursuant to the Deed of Charge, including without limitation each Scottish Supplemental Charge and Scottish Sub-Security)

(p) Trust Deed

(q) Agency Agreement

(r) Programme Agreement (and any Dealer Accession

Letter)

(s) each set of Final Terms (as applicable in the case of each issue of listed Covered Bonds subscribed pursuant to a subscription agreement)

(t) each Subscription Agreement (as applicable in the case of each issue of listed Covered Bonds subscribed pursuant to a subscription agreement)

(u) Master Definitions and Construction Agreement;

Transfer Agent The meaning given in *"Terms and Conditions of the Covered Bonds"* on page 89;

Transfer Certificate The meaning given in Condition 2.5 (Transfers of interests in Regulation S Global Covered Bonds) in *"Terms and Conditions of the Covered Bonds"* on page 93;

Transfer Date Each of the First Transfer Date and the date of transfer of any New Portfolio to the LLP in accordance with the Mortgage Sale Agreement;

True Balance For any Loan as at any given date, the aggregate (but avoiding double counting) of:

(a) the original principal amount advanced to the relevant Borrower and any further amount advanced on or before the given date to the relevant Borrower secured or intended to be secured by the related Mortgage; and

(b) the amount of any Re-draw made under any Flexible Loan or of any Further Draw made under a Flexible Advance secured or intended to be secured by the related Mortgage; and

(c) any interest, disbursement, legal expense, fee, charge, rent, service charge, premium or payment which has been property capitalised in accordance with the relevant Mortgage Conditions or with the relevant Borrower's consent and added to the amounts secured or intended to be secured by that Loan (including interest capitalised on any Re-draw under a Flexible Loan); and

(d) any other amount (including, for the avoidance of doubt, Accrued Interest and Arrears of Interest) which is due or accrued (whether or not due) and which has not been paid by the relevant Borrower and has not been capitalised in accordance with the relevant Mortgage Conditions or with the relevant Borrower's consent but which is secured or intended to be secured by that Loan,

	as at the end of the London Business Day immediately preceding that given date less any repayment or payment of any of the foregoing made on or before the end of the London Business Day immediately preceding that given date and excluding any retentions made but not released and any Additional Loan Advances committed to be made but not made by the end of the London Business Day immediately preceding that given date;
Trust Deed	The meaning given in *"Terms and Conditions of the Covered Bonds"* on page 89;
UCITS Directive	The meaning given on page 307;
Unfair Practices Directive	Directive 2005/29/EC of the European Parliament and of the Council concerning unfair business-to-consumer commercial practices;
UK Listing Authority	FSA in its capacity as competent authority under the FSMA 2000;
UTCCR	Unfair Terms in Consumer Contracts Regulations 1999 and the Unfair Terms in Consumer Contracts Regulations 1994, as amended;
Valuation Report	The valuation report or reports for mortgage purposes, in the form of one of the pro-forma contained in the Standard Documentation, obtained by the Seller from a Valuer in respect of each Property or a valuation report in respect of a valuation made using a methodology which would be acceptable to a Reasonable, Prudent Mortgage Lender and which has been approved by the relevant officers of the Seller;
Valuer	An Associate or Fellow of the Royal Institute of Chartered Surveyors or the Incorporated Society of Valuers and Auctioneers who was at the relevant time either a member of a firm which was on the list of Valuers approved by or on behalf of the Seller from time to time or an Associate or Fellow of the Royal Institute of Chartered Surveyors or the Incorporated Society of Valuers and Auctioneers employed in-house by the Seller acting for the Seller in respect of the valuation of a Property;
Yield Shortfall Test	The test as to whether the aggregate amount of interest on the Loans and amounts under the Interest Rate Swap Agreement to be received by the LLP during the relevant LLP Payment Period would give a yield on the Loans of at least LIBOR plus 0.15%;
Zero Coupon Covered Bonds	Covered Bonds which will be offered and sold at a discount to their nominal amount and which will not bear interest.

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The LLP
Nationwide Covered Bonds LLP
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UBS Limited

Morgan Stanley & Co. International plc

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