



## Nationwide Building Society

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

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

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

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

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

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

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

Application has been made to the Financial Conduct Authority (the **FCA**) under Part VI of the Financial Services and Markets Act 2000 (the **UK Listing Authority**) for Ordinary Notes and Subordinated Notes issued under the Programme during the period of 12 months from the date of this Base Prospectus to be admitted to the official list of the UK Listing Authority (the **Official List**) and to the London Stock Exchange plc (the **London Stock Exchange**) for such Notes to be admitted to trading on the London Stock Exchange's Regulated Market. References in this Base Prospectus to Notes being "listed" (and all related references) shall mean that such Notes have been admitted to trading on the London Stock Exchange's Regulated Market and have been admitted to the Official List. The London Stock Exchange's Regulated Market is a regulated market for the purposes of the Markets in Financial Instruments Directive (Directive 2004/39/EC).

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

The Issuer has a long-term/short-term/subordinated debt rating of A2/P-1/Baa1 by Moody's Investors Service Limited (**Moody's**), A/A-1/BBB+ by Standard & Poor's Credit Market Services Europe Limited (**S&P**), A+/F1/A by Fitch Ratings Ltd. (**Fitch**) and AA (low)/R-1 (middle)/A (high) by DBRS, Inc. (**DBRS**). The Programme has been rated: A2 (senior unsecured)/Baa1 (subordinated) by Moody's; A+ (senior unsecured notes with a maturity of one year or more)/A-1 (senior unsecured notes with a maturity of less than one year)/BBB+ (dated subordinated notes) by S&P; and A+ (long-term unsecured senior notes)/F1 (short-term notes)/A (dated subordinated notes) by Fitch. Moody's, S&P and Fitch are each established in the European Union and registered under Regulation (EC) No. 1060/2009 (as amended) (the **CRA Regulation**). DBRS is not established in the European Union and has not applied for registration under the CRA Regulation. However, DBRS Ratings Limited, which is established in the European Union and registered under the CRA Regulation, had disclosed, in its application for such registration, the intention to endorse credit ratings of DBRS. As such, the ratings of DBRS have been, or are expected to be, endorsed by DBRS Ratings Limited in accordance with the CRA Regulation. Together with DBRS Ratings Limited, each of Moody's, S&P and Fitch is included in the list of credit rating agencies published by the European Securities and Markets Authority (**ESMA**) on its website in accordance with the CRA Regulation. ESMA has indicated that ratings issued in the United States which have been endorsed by DBRS Ratings Limited may be used in the European Union by the relevant market participants. Tranches of Notes issued pursuant to the Programme may be rated or unrated. Where a Tranche of Notes is rated, such rating will be disclosed in the Final Terms and will not necessarily be the same as the ratings assigned to the Programme. A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.

**Arranger**  
**BofA Merrill Lynch**  
**Dealers**

**Barclays**  
**BofA Merrill Lynch**  
**Commerzbank**  
**Daiwa Capital Markets Europe**  
**Goldman Sachs International**  
**J.P. Morgan**  
**Nomura**  
**Société Générale Corporate & Investment Banking**

**UBS Investment Bank**

**BNP PARIBAS**  
**Citigroup**  
**Credit Suisse**  
**Deutsche Bank**  
**HSBC**  
**Morgan Stanley**  
**RBC Capital Markets**  
**The Royal Bank of Scotland**

**This Base Prospectus comprises a base prospectus for the purposes of Article 5.4 of Directive 2003/71/EC as amended (which includes the amendments made by Directive 2010/73/EU to the extent that such amendments have been implemented in a relevant Member State of the European Economic Area) (the Prospectus Directive).**

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

**This Base Prospectus is to be read in conjunction with any supplements hereto, all documents which are deemed to be incorporated herein by reference (see "*Documents Incorporated by Reference*" on page 30) and any Final Terms. This Base Prospectus shall be read and construed on the basis that such documents are incorporated in and form part of this Base Prospectus.**

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

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

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

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

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

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

The distribution of this Base Prospectus and the offer, distribution or sale of Notes may be restricted by law in certain jurisdictions. The Issuer, the Dealers and the Trustee do not represent that this document may be lawfully distributed, or that the Notes may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assume any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Issuer, the Dealers or the Trustee which is intended to permit a public offering of the Notes outside the European Economic Area or distribution of this document in any jurisdiction where action for that purpose is required. Accordingly, the Notes may not be offered or sold, directly or indirectly, and neither this Base Prospectus nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations and the Dealers have represented that all offers and sales by them will be made on such terms. Persons into whose possession this Base Prospectus or any Notes come must inform themselves about, and observe, any such restrictions. In particular, there are restrictions on the distribution of this Base Prospectus and the offer or sale of Notes in the United States, the European Economic Area (including the United Kingdom) and Japan (see "*Subscription and Sale*" on pages [90 – 92]).

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

In this Base Prospectus, unless otherwise specified or the context otherwise requires, references to "the Act" are to the Building Societies Act 1986, which expression shall include, where applicable, any statutory modification or reenactment thereof or any statutory instrument, order or regulation made thereunder or under any statutory modification or reenactment.

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

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

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

- (i) has sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained or incorporated by reference in this Base Prospectus or any applicable supplement;
- (ii) has access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact the Notes will have on its overall investment portfolio;

- (iii) has sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes, including Notes where the currency for principal or interest payments is different from the potential investor's currency;
- (iv) understands thoroughly the terms of the Notes and is familiar with the behaviour of financial markets; and
- (v) is able to evaluate possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

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

In connection with the issue of any Tranche of Notes, one or more relevant Dealers acting as the Stabilising Manager(s) (or persons acting on behalf of any Stabilising Manager(s)) may over-allot Notes or effect transactions with a view to supporting the market price of the Notes of the Series (as defined below) of which such Tranche forms part at a level higher than that which might otherwise prevail. However, 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 terms of the offer of the relevant Tranche of Notes 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 Notes and 60 days after the date of the allotment of the relevant Tranche of Notes. Any stabilisation action or over-allotment must be conducted by the relevant Stabilising Manager(s) (or persons acting on behalf of any Stabilising Manager(s)) in accordance with all applicable laws and rules.

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## OVERVIEW OF THE PROGRAMME

*The following overview does not purport to be complete and is taken from, and is qualified in its entirety by, the remainder of this Base Prospectus and, in relation to the terms and conditions of any particular Tranche of Notes, the applicable Final Terms. The Issuer and any relevant Dealer may agree that Notes shall be issued in a form other than that contemplated in the Terms and Conditions, in which event, a new Base Prospectus or a drawdown prospectus will be published.*

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

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

**Issuer:** Nationwide Building Society (the **Issuer**). The Issuer is the largest building society in the United Kingdom, based on total assets of £191 billion as at 4 April 2013.

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

**Dealers:**

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

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|--|---|
| <b>Issuing and Principal Paying Agent:</b> | Citibank, N.A., London Office   |
| <b>Amount:</b>                             | Up to U.S.\$25,000,000,000 nominal amount outstanding at any time (or its equivalent in other currencies as described herein) excluding Deposit Notes. The Issuer may increase the amount of the Programme in accordance with the terms of the Programme Agreement.   |
| <b>Distribution:</b>                       | Notes may be distributed by way of private or public placement and in each case on a syndicated or non-syndicated basis.  |
| <b>Currencies:</b>                         | <p>Sterling, euro, U.S. dollars, Yen or any other currency, subject to compliance with all applicable legal and/or regulatory requirements, as may be agreed from time to time by the Issuer, the relevant Dealer(s), the Agent and the Trustee.</p> <p>Each issue of Notes denominated in a currency in respect of which particular laws, guidelines, regulations, restrictions or reporting requirements apply will only be issued in circumstances which comply with such laws, guidelines, regulations, restrictions or reporting requirements from time to time.</p> |
| <b>Denominations:</b>                      | The Notes will be issued in such denominations as may be agreed between the Issuer and the relevant Dealer save that the minimum denomination of each Note will be such amount as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the relevant Specified Currency and save that the minimum denomination of each Note will be €100,000 (or, if the Notes are denominated in a currency other than euro, the equivalent amount in such currency).                                  |
| <b>Maturities:</b>                         | Notes may have any maturity as indicated in the applicable Final Terms, save that (a) in the case of Subordinated Notes, the minimum maturity will be five years and one day, (b) in the case of Deposit Notes, the maximum maturity will be five years, and (c) notwithstanding (a) and (b) above, in any case such other maturity as may be required from time to time by the relevant monetary authority or any laws or regulations applicable to the relevant currency.   |
| <b>Issue Price:</b>                        | Notes may be issued at par or at a premium or discount to par and will be issued on a fully-paid basis.   |
| <b>Form:</b>                               | The Notes will be issued in bearer form.  |
| <b>Terms of the Notes:</b>                 | The terms of the Notes will be specified in the applicable Final Terms. The following types of Note may be issued: (i) Notes which bear interest at a fixed or floating rate; and (ii) Notes which do not bear interest.  |
| <b>Interest:</b>                           | Interest periods, rates of interest and the terms of and/or amounts payable on redemption may differ depending on the Notes being issued and such terms will be specified in the applicable Final Terms.  |

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| <b>Redemption:</b>  | <p>The Final Terms relating to each Tranche of Notes will indicate either that the Notes cannot be redeemed prior to their stated maturity (other than for taxation reasons or following an Event of Default) or that such Notes will be redeemable at the option of the Issuer and/or the Noteholders upon giving notice to the Noteholders or the Issuer, as the case may be, on a date or dates specified prior to such stated maturity and at a price or prices and on such terms as are indicated in the applicable Final Terms.</p> <p><b>Subject to certain exceptions, Subordinated Notes may not be redeemed prior to five years and one day from the issue date thereof.</b></p> |
| <b>Denomination of Definitive Notes:</b>                    | <p>So long as any Notes are represented by a temporary global Note or a permanent global Note and the relevant clearing system(s) so permit, the Notes shall be tradeable only in principal amounts of at least the Specified Denomination (or, if more than one Specified Denomination, the lowest Specified Denomination) provided in the applicable Final Terms and integral multiples of the Calculation Amount specified in the applicable Final Terms in excess thereof.</p>   |
| <b>Taxation:</b>  | <p>All payments in respect of the Notes will be made without deduction for or on account of United Kingdom withholding taxes, unless the withholding is required by law. In that event, the Issuer will (subject to certain exceptions as set out in Condition 10) pay such additional amounts as will result in Noteholders receiving such amounts as they would have received in respect of the Notes had no such withholding been required.</p>   |
| <b>Status of the Notes (other than Subordinated Notes):</b> | <p>The Notes (other than Subordinated Notes) will constitute direct, unconditional and unsecured obligations of the Issuer and will rank (subject to any applicable statutory exceptions and the provisions of Condition 4) equally with all other unsecured and unsubordinated obligations of the Issuer, and in priority to investment shares in the Issuer.</p>   |
| <b>Status of the Subordinated Notes:</b>                    | <p>The Subordinated Notes will constitute direct and unsecured obligations of the Issuer and will rank without any preference among themselves. The rights of holders of Subordinated Notes and the relative Coupons will, in the event of the winding up of the Issuer, be subordinated in the manner provided in the Trust Deed and as specified in Condition 3.</p>   |
| <b>Cross Default:</b>                                       | <p>The Notes (other than Subordinated Notes) will contain a cross default clause in respect of indebtedness for moneys borrowed or raised by the Issuer.</p>   |
| <b>Negative Pledge:</b>                                     | <p>The Notes (other than Subordinated Notes) will contain a negative pledge prohibiting (subject to the exception set out therein) the Issuer or any Subsidiary from creating security to secure any Loan Stock of the Issuer or any Subsidiary.</p>   |
| <b>Rating:</b>  | <p>The Programme has been rated A2 (senior unsecured) / Baa1 (subordinated) by Moody's; A (senior unsecured notes with a maturity of one year or more) / A-1 (senior unsecured notes with a maturity of less than one year) / BBB+ (dated subordinated notes) by S&amp;P; and A+ (long-term unsecured senior notes) / F1 (short-term notes) / A (dated subordinated notes) by Fitch. Series of Notes issued under the Programme</p>  |



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

**Events of Default:**

The terms of certain of the Notes will contain, amongst others, the following events of default:

- (a) default in payments of any principal or interest due in respect of the Notes, continuing for a specified period of time;
- (b) non-performance or non-observance by the Issuer of any of its other obligations under the Terms and Conditions or the Trust Deed continuing for a specified period of time;
- (c) default by the Issuer or any of its Principal Subsidiaries relating to present or future indebtedness in an amount of £40,000,000 or more;
- (d) any distress, execution or similar legal process of a claim of £20,000,000 or more is levied or enforced or sued out upon or against any part of the property, assets or revenues of the Issuer or any Principal Subsidiary and is not discharged or stayed within 30 days of having been so levied, enforced or sued out;
- (e) events relating to the administration, liquidation, insolvency or winding up of the Issuer or any of its Principal Subsidiaries.

**Listing:**

Application has been made for Ordinary Notes and the Subordinated Notes issued under the Programme to be listed on the London Stock Exchange. Ordinary Notes and Subordinated Notes may be admitted to listing, trading and/or quotation by such other or further listing authorities, stock exchanges and/or quotation systems as may be agreed between the Issuer and the relevant Dealer(s) in relation to each issue.

**Use of Proceeds:**

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

**Governing Law:**

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

**Selling Restrictions:**

There are selling restrictions in relation to the offering and sale of a particular Tranche of Notes. See "*Subscription and Sale*".

## **RISK FACTORS**

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

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

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

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

#### ***The Notes may not be freely transferred***

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

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

The Notes are new securities which may not be widely distributed and for which there is currently no active trading market. If the Notes are traded after their initial issuance, they may trade at a discount to their initial offering price, depending upon prevailing interest rates, the market for similar securities, general economic conditions and the financial condition of the Society. Although the Issuer has applied to admit the Notes issued from time to time to listing on the Official List and to admit them to trading on the London Stock Exchange's Regulated Market, the Issuer cannot guarantee that the Notes will be accepted for listing or admitted to trading or that an active trading market will develop. Accordingly, the Issuer cannot guarantee the development or liquidity of any trading market for the Notes.

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

***Investors who purchase Notes in denominations that are not an integral multiple of the Specified Denomination may be adversely affected if definitive Notes are subsequently required to be issued***

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

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

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

If the Issuer is declared insolvent and a winding up is initiated the Issuer will be required to pay the holders of its senior debt and meet its obligations to all of its other creditors (including unsecured creditors but excluding any obligations that they may have with respect to its subordinated debt and permanent interest bearing shares) and its United Kingdom (UK) retail member depositors in full before the Issuer can make any payments on the Subordinated Notes. If this occurs, there may not be enough assets remaining after these payments to pay amounts due under the Subordinated Notes. See "*Risk Factors—Factors that may affect the Issuer's ability to fulfil its obligations under Notes issued under the Programme—Risks associated with governmental authorities and monetary policies of the UK and changes thereto may adversely affect the Issuer's business*".

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The credit ratings of the Programme may not reflect the potential impact of all risks relating to the value of the Notes. In addition, real or anticipated changes in the credit ratings of the Issuer or the Notes will generally affect the market value of the Notes. These credit ratings could change due to a wide range of factors, including but not limited to those discussed under the section entitled "*Risk Factors—Factors that may affect the Issuer's ability to fulfil its obligations under Notes issued under the Programme—Demutualisation, mutual society transfers and consequences of the Act may have an adverse impact on the holders of Notes*".

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

In general, European regulated investors are restricted under the CRA Regulation from using credit ratings for regulatory purposes, unless such ratings are issued by a credit rating agency established in the European Union (EU) and registered under the CRA Regulation (and such registration has not been withdrawn or suspended), subject to transitional provisions that apply in certain circumstances whilst the registration application is pending. Such general restriction will also apply in the case of credit ratings issued by non-EU credit rating agencies, unless the relevant credit ratings are endorsed by an EU-registered credit rating agency or the relevant non-EU rating agency is certified in accordance with the CRA Regulation (and such endorsement action or certification, as the case may be, has not been withdrawn or suspended). The list of registered and certified rating agencies published by the ESMA on its website in accordance with the CRA Regulation is not conclusive evidence of the status of the relevant rating agency included in such list, as there may be delays between certain supervisory measures being taken against a relevant rating agency and the publication of the updated ESMA list. Certain information with respect to the credit rating agencies and ratings is set out on the cover of this Base Prospectus.

***If the Issuer demutualises, obligations under UK retail member deposits will rank pari passu with obligations under senior Notes***

Members of the Issuer determine whether the Issuer remains a building society or if the Issuer demutualises.

If the Issuer demutualises, obligations under current UK retail member deposits will rank pari passu with obligations under senior debt, including the senior Notes. As the Issuer is a building society, UK retail member deposits are subordinated to obligations under senior debt, including the senior Notes, and rank senior to obligations under subordinated debt, including the Subordinated Notes. For a discussion of the ranking of the Issuer's debt, see the section entitled "*Terms and Conditions of the Notes*". For a further discussion about the possibility of demutualisation, see the section entitled "*Consequences of the Building Societies Act for Noteholders*".

***The Notes may be subject to withholding taxes in circumstances where the Issuer is not obliged to make gross up payments and this would result in holders receiving less interest than expected and could significantly adversely affect their return on the Notes***

*Withholding under the EU Savings Directive*

Under EC Council Directive 2003/48/EC on the taxation of savings income, EU Member States are required to provide to the tax authorities of another EU Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to an individual resident in that other EU Member State or to certain limited types of entities established in that other EU Member State. However, for a transitional period, Austria and Luxembourg are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). In April 2013, the Luxembourg Government announced its intention to abolish the withholding system with effect from 1 January 2015, in favour of automatic information exchange under the Directive. A number of non-EU countries and territories including Switzerland have adopted similar measures (a withholding system in the case of Switzerland).

The European Commission has proposed certain amendments to the Directive which may, if implemented, amend or broaden the scope of the requirements described above.

If a payment were to be made or collected through an EU Member State which has opted for a withholding system and an amount of, or in respect of, tax were to be withheld from that payment, neither the Issuer nor any Paying Agent (as defined in the terms and conditions of the Notes) nor any other person would be obliged to pay additional amounts with respect to any Note as a result of the imposition of such withholding tax. The

Issuer will be required, to the extent reasonably practicable, to maintain a Paying Agent in an EU Member State that will not be obliged to withhold or deduct tax pursuant to the Directive.

#### *U.S. Foreign Account Tax Compliance Withholding*

Section 1471 through 1474 of the U.S. Internal Revenue Code (or **FATCA**) imposes a new reporting regime and, potentially, a 30 per cent. withholding tax with respect to (i) certain payments from sources within the United States, (ii) 'foreign passthru payments' made to certain non-U.S. financial institutions that do not comply with this new reporting regime, and (iii) payments to certain investors that do not provide identification information with respect to interests issued by a participating non-U.S. financial institution. Whilst the Notes are in global form and held within the clearing systems, in all but the most remote circumstances, it is not expected that FATCA will affect the amount of any payment received by the clearing systems. However, FATCA may affect payments made to custodians or intermediaries in the subsequent payment chain leading to the ultimate investor if any such custodian or intermediary generally is unable to receive payments free of FATCA withholding. It also may affect payment to any ultimate investor that is a financial institution that is not entitled to receive payments free of withholding under FATCA, or an ultimate investor that fails to provide its broker (or other custodian or intermediary from which it receives payment) with any information, forms, other documentation or consents that may be necessary for the payments to be made free of FATCA withholding. Investors should choose the custodians or intermediaries with care (to ensure each is compliant with FATCA or other laws or agreements related to FATCA), provide each custodian or intermediary with any information, forms, other documentation or consents that may be necessary for such custodian or intermediary to make a payment free of FATCA withholding. The Issuer's obligations under the Notes are discharged once it has paid the common depositary or common safekeeper for the clearing systems (as bearer of the Notes) and the Issuer has therefore no responsibility for any amount thereafter transmitted through hands of the clearing systems and custodians or intermediaries. Prospectus investors should refer to the section "*Taxation - Foreign Account Tax Compliance Act*".

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

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

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

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

***The Issuer's business and financial performance has been and will continue to be affected by general economic conditions in the UK, the eurozone and elsewhere, and other adverse developments in the UK or global financial markets could cause the Issuer's earnings and profitability to decline***

The Issuer is directly and indirectly subject to inherent risks arising from general economic conditions in the UK and other economies, particularly the eurozone, and the state of the global financial markets both generally and as they specifically affect financial institutions. Since mid-2008, the global economy and the global financial system have experienced a period of significant turbulence and uncertainty. The severe dislocation of

the financial markets around the world that began in August 2007 and worsened significantly in mid-2008 triggered widespread problems at many commercial banks, investment banks, insurance companies, building societies and other financial and related institutions in the UK and around the world. The dislocation severely impacted general levels of liquidity, the availability of credit and the terms on which credit is available. This crisis in the financial markets led the UK Government (the **Government**) and other governments to inject liquidity into the financial system and take other forms of action relating to financial institutions, including bank recapitalisations and the provision of government guarantees for certain types of funding, aimed at both supporting the sector and providing confidence to the market.

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

Although there have been periods where market conditions have generally improved, recent developments, particularly in the eurozone, have demonstrated that there continues to be significant uncertainty. From April 2010 to date, financial markets have periodically been negatively impacted by ongoing fears surrounding the large sovereign debts and/or fiscal deficits of several countries in Europe (primarily Greece, Ireland, Italy, Portugal and Spain (**GIIPS**) and more recently Cyprus) and the possibility of one or more defaults on sovereign debt and the risk of contagion to other more stable countries throughout and beyond the eurozone remains. This is, in part, because a significant number of financial institutions throughout Europe have substantial exposures to sovereign debt issued by nations, in particular GIIPS, which are under considerable financial pressure. Should any of these nations default on their debt, or experience a significant widening of credit spreads, major financial institutions and banking systems throughout Europe could be destabilised, resulting in the further spread of the ongoing economic crisis.

Moreover, the sovereign debt crisis in Europe has periodically adversely affected the ability of countries throughout the eurozone to raise capital and the cost thereof, and the uncertainty of how this may be resolved has led to an increase in the general cost of funding. The initial impact of this was felt in the wholesale markets, though there was a consequent increase in the cost of retail funding, with greater competition in a savings market which is growing slowly by historical standards. In the absence of a permanent resolution of the eurozone crisis, conditions could continue to deteriorate.

The outlook for the UK economy has remained challenging over the last year, with the UK economy dipping back into recession in 2012. Though the economy returned to growth in the third quarter of 2012, this was in part due to one-off factors (such as the Olympics) and prospects for the 2013-2014 financial year remain challenging. Uncertainty surrounding the future of the eurozone continues to pose a risk of further significant slowdown in economic activity in the UK's principal export markets which would have a corresponding effect on the broader UK economy. A wide-scale break-up of the eurozone would most likely be associated with a significant deterioration in the economic and financial environment in the UK and eurozone that would materially affect the capital and the funding position of participants in the European financial sector. Domestically, both public and household spending are being constrained by austerity measures, and the Issuer faces the risk of higher levels of unemployment combined with declines in real disposable incomes. Government measures to return UK public finances to a sustainable trajectory, including taxation rises and the public spending cuts being implemented, are also likely to result in a slower recovery than other recent recessions.

The exact nature of the risks that the Issuer faces and the manner and the extent to which they ultimately will impact the Issuer are difficult to predict and to guard against in light of (i) the inter-related nature of the risks

involved, (ii) difficulties in predicting whether recoveries will be sustained and at what rate, and (iii) the fact that the risks are totally or partially outside of the control of the Issuer.

At the onset of the financial turbulence noted earlier, the Issuer experienced a decline in its net interest margin. The initial decline was driven by the increased cost of retail funding (reflecting the competitive savings market), the progressive re-pricing of long-term wholesale funding and by the Issuer's Base Mortgage Rate (**BMR**) commitment to existing borrowers whereby the Issuer guaranteed existing customers that its BMR will be no more than 200 basis points above the Bank of England (**BoE**) base rate. The decline in net interest margin also reflected the fact that customers have continued to benefit from the Issuer's decision not to implement the mortgage tracker floor when the Issuer's BMR reached 2 per cent., 0.75 per cent. below their contractual floor limit of 2.75 per cent. Whilst these remain negative drivers, more recently they have been offset by wider spreads on new mortgage and other lending. However, if low interest rates persist there will be less incentive for customers to move to higher yielding products, and this will continue to depress net interest margin and profitability.

The UK housing market has remained muted since the start of 2011, with transaction levels well below historic norms and with house prices essentially flat since mid-2010. The Issuer expects buyer activity to continue to be relatively subdued, with the potential to decline further should the labour market situation deteriorate markedly or if strains in the financial system intensify and impair the flow of credit to the wider economy. Similarly, the outlook for the commercial property market continues to be uncertain in the light of broader macroeconomic conditions. Potential for further weakening in tenant demand and investor appetite means the impairment outlook for the Issuer's commercial lending business has become more uncertain since mid-2011.

The UK commercial property market was negatively impacted by the recession with peak (June 2007) to trough (July 2009) falls in capital values of 44 per cent. and conditions remain extremely challenging. Commercial property values continued to decline in the last financial year and the Issuer expects this decline to continue throughout 2013 with no meaningful increases anticipated in the near term. At 4 April 2013, the proportion of the Issuer's commercial loans three months or more in arrears was 4.50 per cent. (4 April 2012: 3.66 per cent.), with arrears balances of £81 million (4 April 2012: £58 million). The Issuer booked a total commercial impairment charge of £493 million in the financial year ended 4 April 2013, which is £246 million higher than in the financial year ended 4 April 2012.

The continued effect of margin compression and exposure to both retail and commercial loan impairment charges resulting from the impact of general economic conditions means that the Issuer may continue to experience the lower levels of profitability that it has experienced since the 2008-2009 financial year and there remains the possibility of further downward pressure on profitability and growth depending on a number of external influences, such as the consequences of a more austere economic environment.

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

The dislocations in the financial markets have resulted in the Issuer 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 it holds. Asset valuations in future periods, reflecting prevailing market conditions, may result in further negative changes in the fair values of the Group's investment assets and these may also translate into increased impairments, particularly with respect to the Issuer's exposure through its liquidity and investment portfolios to financial institutions in 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 its operating results, financial condition or prospects.



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

Liquidity and funding continue to remain key areas of focus for the Group and the industry as a whole. Like all major financial institutions, the Group is dependent on confidence in the short and long-term wholesale funding markets. Should the Group, due to exceptional circumstances, be unable to continue to source sustainable funding, its ability to fund its financial obligations could be impacted.

The 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 Group's profitability. Whilst the Group expects to have sufficient liquidity to meet its funding requirements even in a market wide stress scenario, under extreme and unforeseen circumstances a prolonged and severe restriction on the Group's access to liquidity (including government and central bank funding and liquidity support) could affect its ability to meet its financial obligations as they fall due, to meet its regulatory minimum liquidity requirements, or to fulfil its commitments to lend. In such extreme circumstances the 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 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 Group may prove to be inefficient, giving rise to a level of funding cost that is not sustainable in the long-term for the Group to grow its business or even maintain it at current levels. The Group's ability to access retail and wholesale funding sources on satisfactory economic terms is subject to a variety of factors, including a number of factors outside of 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 Group's control, such as general economic conditions and market volatility, the confidence of retail depositors in the economy in general and in the Group in particular, the financial services industry specifically and the availability and extent of deposit guarantees. These or other factors could lead to a reduction in the 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 together with the low base rate environment have had a negative impact on the Issuer's margins and profit. 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 its business, financial position and results of operations.

***In past years the Government has provided significant support to UK financial institutions, including most recently the Bank of England's Funding for Lending Scheme which commenced on 1 August 2012 and was extended in a number of respects on 24 April 2013. Any significant reduction or withdrawal of this scheme could increase competition for other sources of funding which could adversely impact the Issuer.***

In past years the Government has provided significant support to UK financial institutions, including through the Special Liquidity Scheme (SLS), which was introduced in April 2008 to improve the liquidity position of the banking system by allowing banks and building societies to swap their high quality mortgage-backed and other securities for UK Treasury Bills for up to three years, and the Credit Guarantee Scheme (CGS), which was introduced in October 2008 and under which the Government guaranteed eligible bank and building society debt securities for a limited period. The Issuer participated in both these schemes.

On 1 August 2012, the BoE's Funding for Lending Scheme (the **FLS**) became operational. The aim of the FLS is to boost the incentive for banks and building societies to lend to UK households and non-financial companies. The FLS is designed to reduce funding costs for participating institutions so that they can make loans cheaper and more easily available. Access to the FLS is directly linked to how much each institution lends to the real economy. Those that increase lending are able to borrow more in the FLS and at a lower cost than those that scale back their loans. Under the FLS as originally announced, participating financial institutions are, for a period of 18 months to the end of January 2014, able to borrow funds with a maturity of up to four years. This period has been extended to allow drawdowns up to the end of January 2015.

The availability of Government support for UK financial institutions, to the extent that it provides access to cheaper and more attractive funding than other sources, reduces the need for those institutions to fund themselves in the retail or wholesale markets. The Issuer is participating in the FLS, and its initial borrowing allowance under FLS was set at £7.61 billion. As at 4 April 2013, the Issuer has drawn £2.5 billion of UK treasury bills, with further usage expected to form part of its funding plans in the period to 31 January 2015 when the drawdown period ends. By so participating, the Issuer reduces the need to fund itself in the wholesale markets and there is a risk that if it ceases to remain sufficiently active in those markets its access to them could be prejudiced in the future when Government support is reduced or no longer available to it. The withdrawal of Government support in January 2015 will increase funding costs for those institutions which have previously utilised that support. In addition, other financial institutions who have relied significantly on Government support to meet their funding needs will also need to find alternative sources of funding when that support is reduced or withdrawn and, in such a scenario, the Issuer expects to face increased competition for funding, particularly retail funding on which it is reliant, in the future. This competition could further increase its funding costs and so adversely impact its results of operations and financial position.

***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 its borrowers and counterparties or a general deterioration in the UK or global economic conditions, including such changes or deterioration arising from systemic risks in the financial systems, could affect the recoverability and value of the Issuer's assets and require an increase in its impairment provision for bad and doubtful debts and other provisions.

As a result of, among other factors, increases and decreases in the BoE base rate, interest rates payable on a significant portion of the Issuer's outstanding mortgage loan products fluctuate over time, resulting in borrowers with a mortgage loan subject to a variable rate of interest or with a mortgage loan for which the related interest rate adjusts following an initial fixed rate or low introductory rate, as applicable, being exposed to increased monthly payments as and when the related mortgage interest rate adjusts upward (or, in the case of a mortgage loan with an initial fixed rate or low introductory rate, at the end of the relevant fixed or introductory period). Over the last few years both variable and fixed interest rates have been at relatively low levels, which has benefitted borrowers taking out new loans and those repaying existing variable rate loans regardless of special or introductory rates, and these rates are expected to increase as general interest rates return to historically more normal levels. Future increases in borrowers' required monthly payments, which (in the case of a mortgage loan with an initial fixed rate or low introductory rate) may be compounded by any further increase in the related mortgage interest rate during the relevant fixed or introductory period, ultimately may result in higher delinquency rates and losses in the future.

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.

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

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

Any future declines in those aspects of the Issuer's business identified by the rating agencies as significant or otherwise could adversely affect the rating agencies' perception of its credit and cause them to take further negative ratings actions. Any downgrade in the Issuer's credit ratings could adversely affect its liquidity and competitive position, undermine confidence in its business, increase its borrowing costs, limit its access to the capital markets, or limit the range of counterparties willing to enter into transactions with it. The Issuer has experienced all of these effects when downgraded in the past, although the precise effects experienced on each downgrade have varied based on the reasons for the particular downgrade and the extent to which the downgrade had been anticipated by the market. The Issuer's credit ratings are subject to change and could be downgraded as a result of many factors, including the failure to successfully implement its strategies. A downgrade could also lead to a loss of customers and counterparties which could have a material adverse effect on its business, results of operations and financial condition.

If the ratings analysis of any agency that rates the Issuer's credit is updated to reflect lower forward-looking assumptions of systemic support in the current environment or higher assumptions of the risks in the financial sector, or otherwise modified, it could result in a further downgrade to the outlook or to the credit ratings of UK financial institutions, including the Issuer, which could have a material adverse effect on the borrowing costs, liquidity and funding of all UK financial services institutions, including the Issuer. A further downgrade could also create new obligations or requirements for the Issuer under existing contracts with its counterparties that may have a material adverse effect on the Issuer's business, financial condition, liquidity or results of operations.

Likewise, 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 and the marketability and trading value of the Notes. This might also impact on the Issuer's own credit ratings, borrowing costs and its 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 and/or reducing asset prices. These risks are exacerbated by concerns over the levels of the public debt of, the risk of further sovereign downgrades of, and the weakness of the economies in, GIIPS in particular. Further instability within these countries or others within the eurozone might lead to contagion.

***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 the Issuer's operations. The Issuer operates in an increasingly competitive UK personal financial services market. It competes mainly with other providers of personal finance services, including banks, building societies and insurance companies.

The UK market for financial services and the mortgage market in particular have been reshaped by the recent financial crisis. 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. Competition may intensify further in response to consumer demand, technological changes, the impact of consolidation by the Issuer's competitors, regulatory actions and other factors. If increased competition were to occur as a result of these or other factors, the Issuer's business, financial condition and results of operations could be materially adversely affected. Currently, there is particular uncertainty on the shape and potential effects of pending changes to the way in which the sector is regulated. This is particularly the case in regard to the impact of the Government's response to the recommendations of the Independent Commission on Banking (the **ICB**) and the progress of the Financial Services (Banking Reform) Bill. Although this proposed legislation carves out building societies from the ring-fencing proposals, it does contain a power to make provisions for ring-fencing in relation to building societies under separate regulation, which may include an amendment to the Act.

In addition, if the Issuer's customer service levels were perceived by the market to be materially below those of competitor UK financial institutions, the Issuer could lose existing and potential new business. If the Issuer is not successful in retaining and strengthening customer relationships, the Issuer may lose market share, incur losses on some or all of its activities or fail to attract new deposits or retain existing deposits, which could have a material adverse effect on its business, financial condition and results of operations.

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

The Issuer's success as a financial institution depends on its ability to manage and control its financial risk, which includes liquidity, market, and credit risk. It is exposed to liquidity risk as a result of mismatches in cash flows from balance sheet assets and liabilities and off-balance sheet financial instruments. 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 it fails to manage and control these risks, the Issuer could become unable to meet its own obligations, including those under the Notes, resulting in material adverse effects to its business, financial condition and reputation.

The Issuer's businesses are also dependent on its ability to process a very large number of transactions efficiently and accurately. Operational risk and losses can result from fraud, errors by employees, failure to document transactions properly or to obtain proper internal authorisation, failure to comply with regulatory requirements and conduct of business rules, equipment failures, natural disasters or the failure of external systems, for example, those of its 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 under the Financial Services and Markets Act 2000.

***Market risks may adversely impact the Issuer's business***

The most significant market risks that 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 assets and liabilities denominated in foreign currency.

The performance of financial markets may cause changes in the value of its investment and liquidity portfolios. Although the Issuer has implemented risk management methods to seek to mitigate and control these and other market risks to which it is exposed and its exposures are constantly measured and monitored, there can be no

assurance that these risk management methods will be effective, particularly in unusual or extreme market conditions. It is difficult to predict with accuracy changes in economic or market conditions and to anticipate the effects that such changes could have on its financial performance and business operations.

***Reputational risk could cause harm to the Issuer and the Issuer's business prospects***

The Issuer's ability to attract and retain customers and conduct business with its counterparties could be adversely affected if the Issuer's reputation or the reputation of the Nationwide brand is damaged. Failure to address, or appearing to fail to address, issues that could give rise to reputational risk could cause harm to the Issuer and the Issuer's business prospects. Reputational issues include, but are not limited to: appropriately addressing potential conflicts of interest; breaching or facing allegations of having breached legal and regulatory requirements; acting or facing allegations of having acted unethically (including having adopted inappropriate sales and trading practices); adequacy of anti-money laundering and anti-terrorism financing processes; privacy issues; failing or facing allegations of having failed to maintain appropriate standards of customer privacy, customer service and recordkeeping; technology failures that impact upon customer services and accounts; sales and trading practices; proper identification of the legal, reputational, credit, liquidity and market risks inherent in products offered; and general company performance. A failure to address these issues appropriately could make customers unwilling to do business with the Issuer, which could adversely affect the Issuer's business, financial condition and results of operations.

***The Issuer is exposed to risks relating to the misselling of financial products, acting in breach of legal or regulatory principles or requirements and giving negligent advice***

The Issuer is exposed to many forms of legal and regulatory risk, which may arise in a number of ways. Primarily:

- certain aspects of the Issuer's business may be determined by the BoE, the Prudential Regulation Authority (the **PRA**), the FCA, HM Treasury, the Office of Fair Trading (the **OFT**), the Financial Ombudsman Service (the **FOS**) or the courts as not being conducted in accordance with applicable laws or regulations, or, in the case of the FOS, with what is fair and reasonable in the Ombudsman's opinion;
- the alleged misselling of financial products, including as a result of having sales practices and/or rewards structures that are deemed to have been inappropriate, may result in disciplinary action (including significant fines) or requirements to amend sales processes, withdraw products, or provide restitution to affected customers, all of which may require additional provisions to be recorded in the Issuer's financial statements and could adversely impact future revenues from affected products; and
- the Issuer may be liable for damages to third parties harmed by the conduct of the Issuer's business.

In addition, the Issuer faces both financial and reputational risk where legal or regulatory proceedings, or complaints before the FOS, or other complaints are brought against it or members of the Issuer's industry generally in the High Court or elsewhere. For example, a High Court judgment in 2011 on the misselling of payment protection insurance (**PPI**) resulted in very significant provisions for customer redress made by several UK financial services providers. The Issuer's provision for customer redress is reflected in a charge for the year ended 4 April 2013 of £53 million (£103 million for the year ended 4 April 2012). Although the Issuer's PPI product sales ceased in 2007 and although the Issuer views its historical sales volumes as relatively low and subject to a rigorous sales process, it continues to see elevated levels of PPI claims and there can be no assurance that the Issuer's estimates for potential liability are correct, and the Issuer's reserves taken to date might prove inadequate.

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

***Risks associated with governmental authorities and monetary policies of the UK and changes thereto may adversely affect the Issuer's business***

The Issuer conducts its business subject to ongoing regulation by the PRA and the FCA, which oversee 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 its 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, including the risk that the UK financial regulatory authorities, and other bodies such as the FOS, 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 its business, including costs relating to advice given to retail customers that purchased endowment policies used to repay mortgage loans.

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) or other UK incorporated and authorised deposit-taking institution. The orders which may be made under the Banking Act in respect of relevant deposit-taking institutions relate to share transfer powers (applying to a wide range of securities) and property transfer powers (including powers for partial transfers of property, rights and liabilities), certain ancillary powers (including powers to modify certain contractual arrangements in certain circumstances, including between group companies, and/or disapplication or modification of laws (with possible retroactive effect) and two new special insolvency procedures (bank insolvency and bank administration) which may be commenced by the UK authorities. In addition, in respect of UK building societies, the relevant tools include modified property transfer powers which refer to (i) cancellation of shares and conferring rights and liabilities in place of such shares and (ii) 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. The Banking Act also includes powers for a modified bank insolvency procedure and/or a modified bank administration procedure to be applied by statutory instrument to building societies. Pursuant to Section 90C of the Act (as inserted by the Building Societies (Insolvency and Special Administration) Order 2009 (amended by the Building Societies (Insolvency and Special Administration) (Amendment) Order 2010), these special insolvency proceedings were applied (with modifications) to building societies.

In general, the Banking Act requires the UK authorities to have regard to specified objectives in exercising the powers provided for by the Banking 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 UK. It is a condition to the exercise of a stabilisation power under the Banking Act that the PRA must be satisfied that the relevant bank or building society is failing or likely to fail to meet the 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 would have enabled such bank or building society to

satisfy the threshold conditions. The Banking Act includes provisions related to compensation in respect of transfer instruments and orders made under it.

If an instrument or order were to be made under the Banking Act in respect of the Issuer, such instrument or order may (amongst other things) (i) result in a transfer to another issuer via the modified tools described above, (ii) affect the Issuer's ability to satisfy its obligations under the Notes and/or (iii) result in modifications to the terms of the Notes. In addition, the Banking Act contains particular powers for provision to be included in an instrument or order that such instrument or order (and possibly certain related events) be disregarded in determining whether certain widely defined "default event" provisions have occurred (which default events could include certain events of default under any Notes) and provides for the disapplication or modification of laws (with possible retroactive effect) and/or fiscal consequences in connection with the exercise of powers under the Banking Act.

At present, the UK authorities have not made an instrument or order under the Banking Act in respect of the Issuer 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 the holders of Notes will not be adversely affected by any such instrument or order if made.

On 6 June 2012, following earlier consultation papers in this area published in January 2011 and March 2012, the European Commission published a legislative proposal for a directive providing for the establishment of an EU-wide framework for the recovery and resolution of credit institutions and investment firms. Among other things, the proposed crisis-management directive (the **CMD**) contemplates the introduction of a package of minimum early intervention and resolution-related tools and powers for relevant authorities and provides for special rules for cross-border groups. The resolution tools and powers referred to in the CMD include certain tools and powers which overlap in part with those available under the Banking Act and also certain further tools, such as provision for authorities to bail-in eligible liabilities of relevant institutions and to ensure mandatory write-down of capital instruments at the point of non-viability of the relevant institution and to convert unsecured debt claims to equity. There is still scope for changes to be made before any final legislation is adopted. On the basis of the current proposals, however, Member States will be expected to implement the CMD, including the proposals on capital write-down, on or before 1 January 2015, except for the proposals on bail-in, which Member States will have until 1 January 2018 to implement. The proposals on capital write-down and on bail-in are both expected to cover outstanding liabilities already in issue. In general, there is considerable uncertainty about the scope of the powers afforded to the Government under the Banking Act and how the Government may choose to exercise them or the powers granted under any future legislation. If similar legislation providing for capital write-down and bail-in is implemented in relation to building societies, it may cover outstanding liabilities already in issue (in which case this may include Notes outstanding at that time) or future issuances of Notes under the programme. If so, there can be no assurance that Noteholders will not be adversely affected by an action taken under it, once it is agreed upon and implemented.

On 7 April 2010 the Building Societies (Financial Assistance) Order 2010 came into force in exercise of certain powers under the Banking Act for the purpose of modifying the application of the Act in specified circumstances to facilitate the provision 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 persons'. Qualifying institutions for this purpose include HM Treasury, the BoE, other central banks of Member States 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 Building Societies (Financial Assistance) Order 2010 would permit any qualifying institution to provide such assistance to the Issuer without it counting for the purpose of the 50 per cent. limit on its non-member funding. It would also permit the Issuer to create a floating charge over its assets in favour of a qualifying institution in respect of that assistance.

On 1 April 2013, pursuant to the Financial Services Act 2012, a range of structural reforms to UK financial regulatory bodies was implemented, as follows:

- the Financial Services Authority (the **FSA**) was re-established as the FCA;
- a Financial Policy Committee was established in the BoE which is responsible for macro-prudential regulation, or regulation of stability and resilience of the financial system as a whole;
- an independent subsidiary of the BoE, the PRA, was established which is responsible for micro-prudential regulation of financial institutions that manage significant risks on their balance sheets; and
- the FCA has responsibility for conduct of business and markets regulation. The FCA also represents the UK's interests in markets regulation at the new European Securities and Markets Authority.

In addition, UK banks and building societies became subject to a bank levy from 1 January 2011. The levy applies to UK banking groups, building societies and the operations of non-UK banks in the UK, but an allowance is given against the first £20 billion of relevant liabilities, meaning that smaller institutions will effectively be exempted from the levy charge. The scope of the excluded liabilities also includes Tier 1 capital, insured retail deposits and repos secured on sovereign debt. For further information, see "*Description of the Society – Bank Levy*".

The FCA Remuneration Code applies to the UK's largest banks and building societies (including the Issuer) and sets forth certain remuneration principles affecting fixed and variable remuneration of employees of covered institutions. Although the Issuer's management does not believe the FCA Remuneration Code (which the FSA introduced in 2011) has historically affected or presently affects its ability to recruit or retain personnel, there can be no assurance that the aforementioned restrictions will not adversely affect the Issuer's business, financial condition or results of operations.

In June 2010, the Government created the ICB to consider and to make recommendations on structural and related non-structural reforms to the UK banking sector to promote, among other things, financial stability and competition. The ICB released its Final Report to the Cabinet Committee on Banking Reform on 12 September 2011, which sets out the ICB's recommendations on reforms. These recommendations include (i) ring-fencing domestic retail banking services of UK banks and building societies, (ii) introducing a power for the UK authorities to bail in debt issued by UK banks and building societies, (iii) increasing UK banks' and building societies' loss-absorbing capacity (including by way of bail-in bonds), (iv) increasing the ranking of insured depositors on a winding up to rank ahead of all other unsecured creditors and (v) promoting competition in UK retail banking. The ICB indicated that the reforms will require an extended implementation period and recommended that implementation should be completed at the latest by 2019. If implemented, the ICB's recommendations would have an impact on the manner in which the Issuer conducts its business, may affect its ability to satisfy its obligations under the Notes and/or may result in modifications to the terms of the Notes, which may have certain tax implications.

HM Treasury published a white paper on 14 June 2012 ("Banking reform: delivering stability and supporting a sustainable economy") confirming its continuing support for the majority of the ICB proposals and its intention to bring forward legislation to effect the relevant changes before the end of this Parliament (2015). Broadly, the white paper covers the following areas: the ring-fencing of vital banking services from international and investment banking services; measures on loss absorbency and depositor preference; and proposals for enhancing competition in the banking sector. A draft of the initial bill to implement the ICB recommendations was published on 12 October 2012, in the form of framework legislation to put in place the architecture to effect the reforms, with detailed policy being provided for through secondary legislation. Any future bail-in powers will be implemented in line with the draft EU Recovery and Resolution Directive published on 6 June 2012. Primary legislation (the draft Financial Services (Banking Reform) Bill) is intended to give effect to the ICB's recommendations. A revised text of the bill was published on 4 February 2013. The draft bill excludes building societies entirely from the enabling ring-fencing legislation, to avoid imposing disproportionately burdensome requirements upon the sector. The white paper notes, however, that some parallel changes will be made to the Act to implement bespoke ring-fencing requirements for building societies and that loss



absorbency requirements are still likely to apply. The intention is that the changes to the Act will bring building societies into line so that they can compete on a fair basis while maintaining their distinctive approach. The Government plans to introduce all necessary legislation as soon as Parliamentary time allows, and has confirmed its commitment to completing all primary and secondary legislation by the end of this Parliament in May 2015. Banks and building societies will be expected to comply with all of the measures proposed in the white paper by 2019, as the ICB recommended.

On 6 July 2012, HM Treasury published a discussion document entitled "The future of building societies" which sets out the Government's aim to maintain the distinctiveness of the building society sector while creating a level playing field and removing unnecessary barriers to growth. The Government stated that it intends to amend the Act to widen the opportunities for building societies and to align them with ring-fenced banks without compromising their mutuality. The Government stated that the loss absorbency proposals set out in the white paper of June 2012 on banking reform will apply to building societies as they apply for banks of a similar profile. As part of its commitment to foster diversity in the financial sector, the Government invited suggestions for reviewing those parts of the Act which restrict societies, where this is in accordance with maintaining their distinctiveness.

Currently it is not possible to predict how and the extent to which the other foregoing recently announced changes will impact on the Issuer's operations, business results, financial condition or prospects. Accordingly, there can be no assurance 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 its operations, business, results, financial condition or prospects.

***The Issuer is subject to capital requirements that could have an impact on its operations***

The Issuer is subject to capital adequacy requirements adopted by the PRA for a building society. Its capital is reported as a ratio of total capital to risk-adjusted assets expressed as a percentage. If the Issuer fails to meet its minimum regulatory requirements, this may result in administrative actions or sanctions against the Issuer, which may impact its ability to fulfil its obligations under the Notes.

The current risk-adjusted capital guidelines (the **Basel Accord**) promulgated by the Basel Committee on Banking Supervision (the **Basel Committee**), which form the basis for the EU's and thus the PRA's capital adequacy 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 requirements also include allocation of risk capital in relation to operational risk and supervisory review of the process of evaluating risk measurement and capital ratios.

On 16 December 2010 and on 13 January 2011, with a minor revision on 1 June 2011, the Basel Committee issued its final guidance on a number of fundamental reforms to the regulatory capital framework (such reforms being commonly referred to as **Basel III**), including new capital requirements, higher capital ratios, more stringent eligibility requirements for capital instruments, leverage ratio and liquidity requirements intended to reinforce capital standards and to establish minimum liquidity standards for financial institutions, including building societies. The guidance also proposes (by way of the 13 January 2011 press release) minimum requirements that all capital instruments issued after 1 January 2013 either under their terms or pursuant to appropriate laws be written down or converted into common equity (at the option of the relevant regulatory authority) upon the occurrence of certain "non-viability" trigger events.

Basel III will be implemented in the EEA through a regulation to establish a single set of harmonised prudential rules, which will apply directly to all credit institutions in the EU, and an associated capital requirements directive which will need to be transposed into national law (commonly referred to collectively as **CRD IV**). Draft texts of CRD IV were adopted by the European Parliament on 16 April 2013. The draft gives express recognition for Common Equity Tier 1 capital instruments for mutuals, co-operatives and similar institutions and permits the use of a cap or restriction on the maximum level of distributions on such

instruments provided such cap or restriction is set out under applicable national law or the constitution of the institution. Implementation of CRD IV was originally intended by the European authorities to begin from 1 January 2013 (consistent with the Basel III implementation timetable), but is now expected to occur on 1 January 2014. Otherwise, the timetable for implementation of CRD IV is anticipated to be broadly in line with Basel III, with full implementation by January 2019, but the proposals allow individual EU Member States to implement the stricter requirements of contributing instruments and/or level of capital more quickly than is envisaged under Basel III. It is intended that the Basel Committee recommendation on loss absorbency of capital instruments at the point of non-viability will be implemented separately through the CMD and would be intended to come into force with effect from 1 January 2015.

To complement the CRD IV legislative package—a proposal for a directive providing for the establishment of an EU-wide framework for the recovery and resolution of credit institutions and investment firms—the CMD, was published in June 2012. The powers provided to resolution authorities in the draft CMD include powers to write-down, or convert into equity, capital instruments (including Tier 2 capital instruments such as the Subordinated Notes) at the point of non-viability of a financial institution, as well as a more general bail-in tool, which would give resolution authorities power to write-down, or convert into equity, the claims of certain unsecured senior creditors. The Issuer cannot predict the final form of the CMD, including the proposal for a debt write-down tool, and how the implementation of the CMD may affect the pricing and claims of holders of the Notes. Subject to the implementation of the proposed bail-in power under English law and applicable English banking regulations, Notes may be subject to write-down or loss absorption upon the occurrence of the relevant trigger event determined by UK authorities, which may result in holders losing some or all of their investment.

The ICB's recommendations on reforms also leave open the possibility of capital and leverage requirements in excess of the minimum requirements prescribed by Basel III and/or CRD IV. The ICB recommendations and the Government's response supporting such recommendations include proposals to increase capital and loss absorbency to levels that exceed the proposals under Basel III. The Government has, however, rejected the ICB proposal to increase the leverage ratio requirement above the level of 3 per cent. of Tier 1 capital as envisaged under Basel III. These requirements, as well as the other recommendations of the ICB, are expected to be phased in between 2015 and 2019. As the implementation of the ICB recommendations will be the subject of legislation not yet adopted, the Issuer cannot predict the impact such rules will have on the Issuer's overall capital requirements or how they will affect the Issuer's compliance with capital and loss absorbency requirements of Basel III.

In November 2012, the Financial Policy Committee (the **FPC**) of the BoE issued its Financial Stability Report, which recommended that the FSA (subsequently the PRA) "take action to ensure that the capital of the UK banks and building societies reflect a proper valuation of their assets, a realistic assessment of future conduct costs and prudent calculation of risk weights". Following this, in March 2013, the FPC issued a statement from its policy meeting which concluded that, after adjusting for the items described above, UK banks and building societies had an aggregate capital shortfall of £25 billion at the end of 2012. On 20 June 2013, the PRA announced the results of its capital shortfall exercise across the major UK banks and building societies. In its announcement, the PRA indicated that these institutions (including the Issuer) should hold capital resources equivalent to at least 7 per cent. of their risk weighted assets by the end of 2013. The PRA's assessment shows a capital shortfall attributable to the Issuer of £400 million, but acknowledges that it has already accommodated this shortfall in its plan for 2013 (*Source*: BoE). In addition, following its capital shortfall exercise, the PRA asked that the Issuer submit a plan to meet a leverage ratio of no less than 3 per cent. after adjustments. The Issuer has consulted with the PRA and submitted its plan, under which it expects to achieve this target by the end of 2015, significantly ahead of the expected 1 January 2018 implementation date of the leverage ratio requirements of CRD IV. The PRA has accepted the Issuer's plan and the Issuer will continue to take action to achieve a 3 per cent. leverage ratio.

While the Issuer's plan does not include further capital issuance by the Issuer, it does include certain assumptions about organic growth and the success of its current business model and strategy. If the Issuer is unable to meet its growth targets it may not achieve a 3 per cent. leverage ratio, which could result in further requirements placed upon the Issuer by the regulatory authorities. In addition, new or revised buffer and minimum capital requirements could be applied to the Issuer and/or the manner in which existing regulatory requirements are applied to it could change. The introduction of the new rules and proposals will present a number of challenges to the Issuer in reviewing its existing capital and liquidity arrangements and could have an impact on the Issuer's capital and liquidity calculations and funding requirements or otherwise adversely affect the Issuer's business or profitability.

### ***Financial Services Compensation Scheme***

The Financial Services and Markets Act 2000 (the **FSMA**) established the Financial Services Compensation Scheme (the **FSCS**), which pays compensation to eligible customers of authorised financial services firms which are unable, or are likely to be unable, to pay claims against them. For further information, please refer to the section entitled "*Description of the Society—Financial Services Compensation Scheme*". Based on its share of protected deposits, the Group pays levies to the FSCS to enable the scheme to meet claims against it. While it is anticipated that the substantial majority of claims will be repaid wholly from recoveries from the institutions concerned, there is the risk of a shortfall, such that the FSCS may place additional levies on all FSCS participants, which levies may be in significant amounts that may have a material impact on the Group's profits. In particular, following agreement between the FSCS and HM Treasury on the terms of a refinancing in March 2012, there is an expected shortfall of £363 million for the 2013-14 scheme year, which will be passed on across all firms holding protected deposits, including the Group. In addition, there can be no assurance that there will be no further actions taken under the Banking Act that may lead to further claims against the FSCS, and concomitant increased FSCS levies payable by the Issuer. Any such increases in the Issuer's costs and liabilities related to the levy may have a material adverse effect on its results of operations. Further costs and risks to the Group may also arise from discussions at national and EU levels around the future design of financial services compensation schemes, including increasing the scope and level of protection and moving to pre-funding of compensation schemes. The amount provided for in the Group's accounts to meet its obligations to the FSCS was an estimated £133 million as at 4 April 2013 (£111 million as at 4 April 2012). Included within this provision is £44 million which represents the Group's share of the £363 million expected shortfall described above.

On 25 July 2012 the FSA published a consultation paper, the FSCS Funding Model Review (**FFMR**), on changes to how the FSCS is funded. The consultation closed on 25 October 2012. The FFMR will concentrate on issues such as the composition of the funding classes, the levy thresholds applicable to each and their tariff bases. On 25 March 2013, the FSA published a policy statement on the FFMR. It confirms that, in addition to the five FCA funding classes already included in the FCA retail post (RP12116), all FCA-regulated deposit takers, general insurers, life insurers and home finance providers should also contribute to the pool if any of the thresholds of FCA intermediation are reached.

As a result of the structural reorganisation and reform of the UK financial regulatory authorities, the FSCS is the joint responsibility of the PRA and the FCA. It is possible that future policy of the FSCS and future levies on the Group may differ from those at present, and such reforms could lead the Group to incur additional costs and liabilities, which may adversely affect the Group's business, financial condition and/or results of operations.

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

Regulators and other bodies in the UK and world-wide have produced a range of proposals for future legislative and regulatory changes which could force the Group to comply with certain operational restrictions,

take steps to raise further capital, and/or increase the Group's expenses and/or otherwise adversely affect the Issuer's business results, financial condition or prospects. These include, amongst others:

- the introduction of recovery and resolution planning requirements for banks, building societies and other financial institutions as contingency planning for the failure of a financial institution that may affect the stability of the financial system;
- the implementation of the Financial Services Act 2012, which enhanced the UK regulatory authorities' disciplinary and enforcement powers;
- the introduction of more regular and detailed reporting obligations;
- a move to pre-funding of the deposit protection scheme in the UK; and
- a proposal to require large UK retail banks and building societies to hold a minimum Core Tier 1 to risk-weighted assets ratio of at least 10 per cent. which is, broadly, 3 per cent. higher than the minimum capital levels under Basel III.

At this point it is impossible to predict the effect that any of the proposed or recently enacted changes will have on the Group's 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 coalition government. Depending on the specific nature of the requirements and how they are enforced, such changes could have a significant impact on the Group's operations, structure, costs, and/or capital requirements.

Accordingly, there can be no assurance that the implementation of any of the foregoing matters or any other regulatory or legislative changes that may be proposed will not have a material adverse effect on its operations, business, results, financial condition or prospects.

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

***Demutualisation, mutual society transfers and consequences of the Act may have an adverse impact on the holders of Notes***

Subject to regulatory confirmation, the Issuer's members and its directors determine whether it remains a building society or if it demutualises (save in circumstances where a direction is undertaken under Section 42B of the Act or a UK authority makes an instrument or order under the Banking Act (as amended by section 56 of the Financial Services Act 2012) which results in a demutualisation taking place).

The Act includes provisions under which a building society may demutualise by transferring the whole of its business to a company. In addition, the Act (as modified by the Mutual Societies (Transfers) Order 2009 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 the Issuer's depositors and other unsubordinated creditors would rank ahead of share accounts (which term excludes any deferred shares) and the Issuer's members' rights to any surplus in the event of its liquidation, and the claims of its subordinated creditors would rank behind share accounts but ahead of members' rights to any surplus in the event of its liquidation. If, however, the Issuer transfers its business to a specially formed company or an existing company (as defined in the Act) or to a subsidiary of another mutual society, all of its liabilities which immediately prior thereto were

classified as share accounts will thereafter rank at least *pari passu* with all other unsecured and unsubordinated liabilities of its successor.

Under section 90B of the Act (which was inserted by the Funding and Mutual Societies Transfers Act, although not yet in force), 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 Act will, when it is in force, be 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. As at the date of this Base Prospectus, no date has been appointed for this provision to come into force.

Following a transfer of the Issuer's business to a company (including where the transfer is to a subsidiary of another mutual society), its obligations under senior Notes would 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 Notes, (b) equally with other unsecured and unsubordinated creditors (including inter-bank lenders and retail depositors) and (c) behind any statutorily preferential creditors.

## DOCUMENTS INCORPORATED BY REFERENCE

The auditors' report and audited consolidated annual financial statements of the Issuer for the year ended 4 April 2012 (contained on pages 80 to 163 (inclusive) of the Issuer's 2012 Annual Report and Accounts), the auditors' report and audited consolidated annual financial statements of the Issuer for the year ended 4 April 2013 (contained on pages 130 to 193 (inclusive) of the Issuer's 2013 Annual Report and Accounts), the Terms and Conditions of the Notes contained in the previous Base Prospectuses dated 9 August 2002, pages 19-39 (inclusive), 6 August 2004, pages 21-42 (inclusive), 5 October 2006, pages 26-47 (inclusive), 22 October 2007, pages 44-68 (inclusive), 11 November 2008, pages 51-73 (inclusive), 30 November 2009, pages 52-74 (inclusive), 28 September 2010, pages 58-80 (inclusive), 28 September 2011, pages 62-84 (inclusive) and 2 October 2012, pages 38-61 (inclusive) prepared by the Issuer in connection with the Programme and the Terms and Conditions of the Notes in the offering circulars dated 11 October 2000, pages 8-27 (inclusive), 25 April 2002, pages 8-27 (inclusive) and 23 April 2004, pages 8-27 (inclusive) and the prospectus dated 8 July 2005, pages 16-39 (inclusive) prepared by Portman Building Society in connection with its £5,000,000,000 Euro Medium Term Note Programme which have previously been published or are published simultaneously with this Base Prospectus and have been approved by the FCA or filed with it shall be incorporated in, and form part of, this Base Prospectus.

The table below sets out the relevant page references in (i) the Issuer's Annual Report and Accounts for the year ended 4 April 2013 for the Issuer's audited consolidated annual financial statements for the year ended 4 April 2013 and auditors' report thereon and (ii) the Issuer's Annual Report and Accounts for the year ended 4 April 2012 for the Issuer's audited consolidated annual financial statements for the year ended 4 April 2012 and auditors' report thereon:

### **Audited consolidated annual financial statements for the year ended 4 April 2013**

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

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

Copies of documents incorporated by reference in this Base Prospectus will be available for viewing without charge (i) at the principal office of the Issuer, (ii) from the specified offices of the Paying Agents for the time being in London and Luxembourg and (iii) on the website of the London Stock Exchange through a regulatory information service (<http://www.londonstockexchange.com/exchange/news/> market-news/market-news-home.html). Please note that websites and urls referred to herein do not form part of this Base Prospectus. To the extent that any document incorporated by reference in this Base Prospectus incorporates further information by reference, such further information does not form part of this Base Prospectus.

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

## FORM OF THE NOTES

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

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

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

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

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

Payments of principal and interest (if any) on a permanent global Note will be made through Euroclear and/or Clearstream, Luxembourg (against presentation or surrender (as the case may be) of the permanent global Note if the permanent global Note is not issued in NGN form) without any requirement for certification. A



permanent global Note will be exchangeable, in whole but not in part, for security printed definitive Notes with, where applicable, interest coupons and talons attached upon not less than 45 days' written notice (expiring at least 30 days after the Exchange Date) to the Agent from Euroclear or Clearstream, Luxembourg (as the case may be) acting on instructions of the holders of interests in the permanent global Note. Unless otherwise provided in the applicable Final Terms a notice requiring exchange as aforesaid may only be given if an Exchange Event has occurred. Notes for which the applicable Final Terms permit trading in the clearing systems in Calculation Amounts which are not a Specified Denomination will only be exchangeable for definitive Notes upon an Exchange Event. **Exchange Event** means that the Issuer has been notified that either Euroclear or Clearstream, Luxembourg has been closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) after the relevant Issue Date or has announced an intention permanently to cease business or has in fact done so and no alternative clearing system satisfactory to the Trustee is available. The Issuer will promptly give notice to the Noteholders in accordance with the Conditions if an Exchange Event occurs. Temporary and permanent global Notes and definitive Notes will be authenticated (if applicable) and delivered by the Agent on behalf of the Issuer. In the case of Notes issued in NGN form which are intended to be held in a manner which would allow Eurosystem eligibility, the temporary and/or permanent global Note(s) will also be effectuated by the Common Safekeeper.

The following legend will appear on all global Notes, definitive Notes and interest coupons: "Any United States person (as defined in the Internal Revenue Code of the United States) who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in sections 165(j) and 1287(a) of the Internal Revenue Code." The sections referred to provide that United States holders, with certain exceptions, will not be entitled to deduct any loss on Notes or interest coupons and will not be entitled to capital gains treatment of any gain on any sale, disposition, redemption or payment of principal in respect of such Notes or interest coupons.

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

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

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

## FORM OF FINAL TERMS

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

[Date]

**Nationwide Building Society**  
**[Title of relevant Series of Notes (specifying type of Notes)]**  
**issued pursuant to its U.S.\$25,000,000,000 European Note Programme**

### PART A – CONTRACTUAL TERMS

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions set forth in the Base Prospectus dated 2 October 2013 [and the supplemental Prospectus dated [date]] which [together] constitute[s] a base prospectus for the purposes of Directive 2003/71/EC (and amendments thereto, including Directive 2010/73/EU) (the **Prospectus Directive**) (the **Base Prospectus**). This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with the Base Prospectus. Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Base Prospectus. The Base Prospectus has been published on the website of the London Stock Exchange through a regulatory information service (<http://www.londonstockexchange.com/exchange/news/market-news/market-news-home.html>).

[Terms used herein shall be deemed to be defined as such for the purposes of the Conditions (the **Conditions**) set forth in the Base Prospectus dated [original date] and incorporated by reference into the Base Prospectus dated 2 October 2013. This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of Directive 2003/71/EC (and amendments thereto, including Directive 2010/73/EU) (the **Prospectus Directive**) and must be read in conjunction with the Base Prospectus dated 2 October 2013 [and the supplemental Prospectus dated [date]] which [together] constitute[s] a base prospectus for the purposes of the Prospectus Directive (the **Base Prospectus**), including the Conditions incorporated by reference in the Base Prospectus. Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Base Prospectus. The Base Prospectus has been published on the website of the London Stock Exchange through a regulatory information service (<http://www.londonstockexchange.com/exchange/news/market-news/market-news-home.html>).]

## TYPE OF NOTE

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

## DESCRIPTION OF THE NOTES

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

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<sup>1</sup> Include for Notes that are to be offered in Belgium.

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

**PROVISIONS RELATING TO INTEREST (IF ANY)  
PAYABLE**

**Fixed Rate Note Provisions** [Applicable/Not Applicable]

12. (a) Fixed Rate(s) of Interest: [ ] per cent. per annum payable in arrear on each Fixed Interest Date
- (b) Fixed Interest Date(s): [ ] in each year up to and including the Maturity Date
- (c) Initial Broken Amount per denomination: [ ]
- (d) Fixed Coupon Amount(s) (*Applicable to Notes in definitive form*): [ ] per Calculation Amount
- (e) Broken Amount(s) (*Applicable to Notes in definitive form*): [[ ] per Calculation Amount, payable on the Fixed Interest Date falling [in/on] [ ]] [Not Applicable]
- (f) Final Broken Amount per denomination: [ ]
- (g) Day Count Fraction: [Actual/Actual (ICMA)] [30/360]
- (h) Determination Date(s): [[ ] in each year] [Not Applicable]

**Zero Coupon Note Provisions** [Applicable/Not Applicable]

13. (a) Accrual Yield: [ ]
- (b) Reference Price: [ ]
- (c) Calculation Agent (if any): [ ]

**Floating Rate Note Provisions** [Applicable/Not Applicable]

14. (a) Party responsible for calculating the Interest Rate and Interest Amount (if not the Agent): [ ]
- (b) Interest Period(s) or specified Interest Payment Date(s): [ ]

- (c) Business Day Convention: [Floating Rate/Following Business Day/Modified Following Business Day/Preceding Business Day/[ ]]
- (d) Additional Business Centre(s): [ ]
- (e) First Interest Payment Date: [ ]
- (f) Manner in which Rate of Interest is to be determined: [Screen Rate Determination/ISDA Determination]
- (g) If Screen Rate Determination:
- (i) Reference Rate, Specified Time and Relevant Financial Centre: Reference Rate: [ ] month [[ ]]  
LIBOR/EURIBOR/SIBOR  
Specified Time: [11.00 a.m./[ ]]  
Relevant Financial Centre: [London/Brussels/Singapore]
- (ii) Interest Determination Date: [ ]
- (iii) Relevant Screen Page: [ ]
- (h) If ISDA Determination:
- (i) Floating Rate Option: [ ]
- (ii) Designated Maturity: [ ]
- (iii) Reset Date: [ ]
- (i) Linear Interpolation: [Not Applicable/Applicable – the Rate of Interest for the [long/short] [first/last] Interest Period shall be calculated using Linear Interpolation (*specify for each short or long interest period*)]
- (j) Margin(s): [plus/minus] [ ] per cent. per annum
- (k) Minimum Interest Rate (if any): [ ] per cent. per annum [in respect of the period from (and including) [the Interest Commencement Date]/[ ] to (but excluding) [ ]]
- (l) Maximum Interest Rate (if any): [ ] per cent. per annum [in respect of the period from (and including) [the Interest Commencement Date]/[ ] to (but excluding) [ ]]
- (m) Day Count Fraction: [[Actual/Actual (ISDA)] [Actual/Actual]  
Actual/365 (Fixed)  
Actual/365 (Sterling)]

Actual/360  
 [30/360] [360/360] [Bond Basis]  
 [30E/360] [Eurobond Basis]  
 30E/360 (ISDA)]

## PROVISIONS REGARDING REDEMPTION/MATURITY

15. Maturity Date: [ ]
16. Redemption at Issuer's option: [Applicable/Not Applicable]
- (a) Optional Redemption Date(s): [ ]
- (b) Optional Redemption Amount: [[ ] per Calculation Amount]
- (c) If redeemable in part:
- (i) Minimum Redemption Amount: [ ]
- (ii) Maximum Redemption Amount: [ ]
- (iii) Minimum Period: [ ] days
- (d) Notice periods: Minimum period: [ ] days  
Maximum period: [ ] days
17. Redemption at Noteholder's option: [Applicable/Not Applicable]
- (a) Optional Redemption Date(s): [ ]
- (b) Optional Redemption Amount: [ ] per Calculation Amount
- (c) Notice periods: Minimum period: [ ] days  
Maximum period: [ ] days
18. Final Redemption Amount: Subject to any purchase and cancellation or early redemption, the Notes will be redeemed on the Maturity Date at [ ] per cent. of their nominal amount
19. Early Redemption Amount payable on redemption for taxation reasons or on an Event of Default: [ ] per Calculation Amount

## GENERAL PROVISIONS APPLICABLE TO THIS ISSUE OF NOTES

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

### **THIRD PARTY INFORMATION**

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

Signed on behalf of **NATIONWIDE BUILDING SOCIETY**

By: .....  
*Duly Authorised*

By: .....  
*Duly Authorised*

## PART B – OTHER INFORMATION

### 1. LISTING AND ADMISSION TO TRADING

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

[Application is expected to be made by the Issuer (or on its behalf) for the Notes to be admitted to trading on the London Stock Exchange's regulated market and listing on the Official List of the UK Listing Authority with effect from [ ]]. [Not Applicable.]

(b) Estimated of total expenses related to admission to trading: [ ]

### 2. RATINGS

Ratings: The [Programme/Notes to be issued] [has/have] been rated:

[Moody's Investors Service Limited: [ ]]  
[Standard & Poor's Credit Market Services Europe Limited: [ ]]  
[Fitch Ratings Ltd.: [ ]]  
[DBRS, Inc.: [ ]]

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

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

### 4. YIELD (*Fixed Rate Notes only*)

Indication of yield: [ ]

### 5. OPERATIONAL INFORMATION

(a) ISIN Code: [ ]

(b) Common Code: [ ]

(c) Any clearing system(s) other than Euroclear Bank S.A./N.V. and Clearstream Banking, société anonyme [Not Applicable/[ ]]



and the relevant identification  
number(s):

(d) Names and addresses of initial Paying [ ]  
Agent(s) (if any):

(e) Names and addresses of additional [ ]  
Paying Agent(s) (if any):

## TERMS AND CONDITIONS OF THE NOTES

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

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

The Notes are issued with the benefit of an Amended and Restated Agency Agreement dated 2 October 2013 (such Agency Agreement as amended and/or supplemented and/or restated from time to time, the **Agency Agreement**) made between the Issuer, Citibank, N.A., London Office, as issuing agent, principal paying agent and agent bank (the **Agent**, which expression shall include any successor as agent), the other paying agents named therein (together with the Agent, the **Paying Agents**, which expression shall include any additional or successor paying agents) and the Trustee.

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

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

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

The Trustee acts for the benefit of the holders of the Notes (the **Noteholders**, which expression shall, in relation to any Notes represented by a Global Note, be construed as provided below) and the holders of the Coupons (the **Couponholders**, which expression shall, unless the context otherwise requires, include the holders of the Talons), all in accordance with the provisions of the Trust Deed.

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

Copies of the Trust Deed and the Agency Agreement are available for inspection during normal business hours at the registered office for the time being of the Trustee, being at 2 October 2013 at Fifth Floor, 100 Wood Street, London EC2V 7EX and at the specified office of each of the Agent and the other Paying Agents. If the Notes are to be admitted to trading on the regulated market of the London Stock Exchange the applicable Final Terms will be published on the website of the London Stock Exchange through a regulatory information service. If this Note is neither admitted to trading on a regulated market in the European Economic Area nor offered in the European Economic Area in circumstances where a prospectus is required to be published under the Prospectus Directive, the applicable Final Terms will only be obtainable from the principal office of the Issuer and of the Agent by a Noteholder holding one or more Notes and such Noteholder must produce evidence satisfactory to the Issuer and the relevant Paying Agent as to its holding of such Notes and identity. The Noteholders and the Couponholders are deemed to have notice of, and are entitled to the benefit of, all the provisions of the Trust Deed, the Agency Agreement and the applicable Final Terms which are binding on them. Words and expressions defined in the Trust Deed or the Agency Agreement or used in the applicable Final Terms shall have the same meanings where used in these Terms and Conditions unless the context otherwise requires or unless otherwise stated and provided that, in the event of inconsistency between the Agency Agreement and the Trust Deed, the Trust Deed will prevail and, in the event of inconsistency between the Agency Agreement or the Trust Deed and the applicable Final Terms, the applicable Final Terms will prevail.

## **1. Form, Denomination and Transfer**

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

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

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

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

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

to its terms (or the Trustee in accordance with the Trust Deed) (and the expressions **Noteholder**, **holder of Notes** and related expressions shall be construed accordingly). Notes which are represented by a Global Note will be transferable only in accordance with the rules and procedures for the time being of Euroclear and/or Clearstream, Luxembourg, as the case may be.

Any references herein to Euroclear and/or Clearstream, Luxembourg shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearing system specified in Part B of the applicable Final Terms.

## **2. Status of Ordinary Notes and Deposit Notes**

The Ordinary Notes and the Deposit Notes and any relative Coupons are direct, unconditional and (subject to the provisions of Condition 4) unsecured obligations of the Issuer and rank (subject to any applicable statutory exceptions and subject to the provisions of Condition 4) equally with all other unsecured and unsubordinated obligations of the Issuer and in priority to investment shares in the Issuer from time to time outstanding.

## **3. Status and Subordination of Subordinated Notes**

- (a) The Subordinated Notes and any relative Coupons are direct and unsecured obligations of the Issuer, conditional as described below, and rank without any preference among themselves, and the rights of the holders of the Subordinated Notes (and any rights in respect of any relative Coupons) will, in the event of the winding up of the Issuer, be subordinated in right of payment in the manner provided in the Trust Deed to the claims of depositors (including investment creditors) and other unsubordinated creditors of the Issuer in respect of their respective senior claims. Accordingly if the Issuer is at any time in winding up, then no principal or interest in respect of the Subordinated Notes (whether or not already due or accrued prior to the commencement of such winding up) shall be payable by, nor shall any claim in respect thereof be provable against, the Issuer in such winding up unless and until and except to the extent that the Issuer could make such payment in whole or in part and still be solvent immediately thereafter. For the purpose of this Condition, the Issuer shall be deemed to be solvent if it is able to pay its debts in full, or the liquidator of the Issuer determines that it will be able to do so within a period not exceeding twelve months, and in determining whether the Issuer is deemed to be solvent for the purposes of this Condition there shall be disregarded obligations which are not provable in the winding up or which are themselves subordinated to the claims of all or any of the unsecured creditors of the Issuer.
- (b) Subject to applicable law, no holder of Subordinated Notes may exercise, claim or plead any right of set-off, compensation or retention in respect of any amount owed to it by the Issuer arising under or in connection with the Subordinated Notes, any relative Coupons and each Noteholder and Couponholder shall, by virtue of being the holder of any such Subordinated Note or Coupon (as the case may be) be deemed to have waived all such rights of set-off, compensation or retention. Notwithstanding the provision of the foregoing sentence, if any of the said rights and claims of any Noteholder or Couponholder of Subordinated Notes against the Issuer is discharged by set-off, such Noteholder or Couponholder of Subordinated Notes will immediately pay an amount equal to the amount of such discharge to the Issuer or, in the event of winding up of the Issuer the liquidator of the Issuer and accordingly such discharge will be deemed not to have taken place.

## **4. Negative Pledge**

This Condition 4 does not apply to Subordinated Notes. So long as any of the Ordinary Notes or, as the case may be, Deposit Notes remains outstanding the Issuer will not, and will not suffer or permit any Subsidiary of the Issuer to, create or have outstanding any mortgage, lien (not being a lien arising by operation of law), pledge or other security interest upon the whole or any part of its undertaking or assets, present or future, (**Security**) to secure any Loan

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

## **5. Interest**

### **5.1 Interest on Fixed Rate Notes**

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

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

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

and, in each case, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest subunit of the relevant Specified Currency, half of any such subunit being rounded upwards or otherwise in accordance with applicable market convention. Where the Specified Denomination of a Fixed Rate Note in definitive form is a multiple of the Calculation Amount, the amount of interest payable in respect of such Fixed Rate Note shall be the product of the amount (determined in the manner provided above) for the Calculation Amount and the amount by which the Calculation Amount is multiplied to reach the Specified Denomination, without any further rounding.

In these Terms and Conditions:

**Day Count Fraction** means, in respect of the calculation of an amount of interest in accordance with this Condition 5.1:

- (a) if **Actual/Actual (ICMA)** is specified in the applicable Final Terms:
  - (i) in the case of Notes where the number of days in the relevant period from (and including) the most recent Fixed Interest Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date (the Accrual Period) is equal to or shorter than the Determination Period during which the Accrual Period ends, the number of days in such Accrual Period divided by the product of (A) the number of days in such Determination Period and (B) the number of Determination Dates that would occur in one calendar year; or
  - (ii) in the case of Notes where the Accrual Period is longer than the Determination Period commencing on the last Fixed Interest Date on which interest was paid (or, if none, the Interest Commencement Date), the sum of:
    - (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 (I) the number of days in such Determination Period and (II) 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 (I) the number of days in such Determination Period and (II) 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 Fixed Interest 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 twelve 30 day months) divided by 360.

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

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

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

## 5.2 Interest on Floating Rate Notes

### (a) Interest Payment Dates

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

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

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

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

In this Condition, **Business Day** means a day which is both:

- I. a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in London and each Additional Business Centre specified in the applicable Final Terms; and
- II. either (a) in relation to any sum payable in a Specified Currency other than euro, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Specified Currency (which, if the Specified Currency is Australian dollars or New Zealand dollars, shall be Sydney or Auckland, respectively) or (b) in relation to any sum payable in euro, a day on which the TARGET2 system (as such term is defined in Condition 22) is open.

(b) **Rate of Interest**

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

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

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

For the purposes of this Condition 5.2(b)(i), **ISDA Rate** for an Interest Period means a rate equal to the Floating Rate that would be determined by the Agent or other person specified in the applicable Final Terms under an interest rate swap transaction if the Agent or that other person were acting as Calculation Agent for that swap transaction under the terms of an agreement incorporating the 2006 ISDA Definitions (as amended and updated as at the Issue Date of the first Tranche of the Notes and as published by the International Swaps and Derivatives Association, Inc. (the **ISDA Definitions**)) and under which:

- (A) the Floating Rate Option is as specified in the applicable Final Terms;
- (B) the Designated Maturity is the period specified in the applicable Final Terms; and
- (C) the relevant Reset Date is the day specified in the applicable Final Terms.

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

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

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

- (A) the offered quotation (if there is only one quotation on the Relevant Screen Page); or
- (B) the arithmetic mean (rounded upwards if necessary to the nearest 0.0001 per cent.) of the offered quotations,

(expressed as a percentage rate per annum) for the Reference Rate which appears or appear, as the case may be, on the Relevant Screen Page (or such replacement page on that service which displays the information) at the Specified Time in the Relevant Financial Centre on the Interest Determination Date in question plus or minus the Margin (if any), all as determined by the Agent. If five or more of such offered quotations are available on the Relevant Screen Page, the highest (or, if there is more than one such highest quotation, one only of such quotations) and the lowest (or, if there is more than one such lowest quotation, one only of such quotations) shall be disregarded by the Agent for the purpose of determining the arithmetic mean (rounded as provided above) of such offered quotations.

The Agency Agreement contains provisions for determining the Rate of Interest in the event that the Relevant Screen Page is not available or if, in the case of (A) above, no such offered quotation appears or, in



the case of (B) above, fewer than three such offered quotations appear, in each case as at the time specified in the preceding paragraph.

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

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

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

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

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

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

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

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

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

**Day Count Fraction** means, in respect of the calculation of an amount for any period of time in the applicable Final Terms and:

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

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

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

where:

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

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

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

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

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

"D2" is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless such number would be 31 and D<sub>1</sub> is greater than 29, in which case D<sub>2</sub> will be 30;

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

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

where:

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

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

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

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

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

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

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

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

where:

"Y<sub>1</sub>" is the year, expressed as a number, in which the first day of the Interest Period falls;

"Y<sub>2</sub>" is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"M<sub>1</sub>" is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

"M<sub>2</sub>" is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"D<sub>1</sub>" is the first calendar day, expressed as a number, of the Interest Period, unless (i) that day is the last day of February or (ii) such number would be 31, in which case D<sub>1</sub> will be 30; and

"D<sub>2</sub>" is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless (i) that day is the last day of February but not the Maturity Date or (ii) such number would be 31, in which case D<sub>2</sub> will be 30.

(e) **Linear Interpolation**

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

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

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

The Agent will cause the Rate of Interest and each Interest Amount for each Interest Period and the relative Interest Payment Date to be notified to the Trustee and to any listing authority, stock exchange and/or quotation system to which the Floating Rate Notes have then been admitted to listing, trading and/or quotation and to be published in accordance with Condition 19 as soon as possible after their determination but in no event later than the fourth Business Day (as defined in Condition 5.2(a) above) thereafter. Each Interest Amount and Interest Payment Date so notified may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without notice in the event of an extension or shortening of the Interest Period. Any such amendment or alternative

arrangements will promptly be notified to each listing authority, stock exchange and/or quotation system to which the Floating Rate Notes have then been admitted to listing, trading and/or quotation and to the Noteholders in accordance with Condition 19.

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

If for any reason at any time after the Issue Date, the Agent defaults in its obligation to determine the Rate of Interest in accordance with Condition 5.2(b) above or the Agent defaults in its obligation to calculate any Interest Amount in accordance with Condition 5.2(d) above, the Trustee (or an agent acting on its behalf) shall determine the Rate of Interest at such rate as, in its absolute discretion (having such regard as it shall think fit to the foregoing provisions of this Condition, but subject always to any Minimum or Maximum Rate of Interest specified in the applicable Final Terms), it shall deem fair and reasonable in all the circumstances or, as the case may be, the Trustee (or an agent acting on its behalf) shall calculate the Interest Amount(s) in such manner as it shall deem fair and reasonable in all the circumstances and each such determination or calculation shall be deemed to have been made by the Agent. The Trustee shall have no liability to any person in connection with any determination or calculation it is required to make pursuant to this Condition 5.2.

**(h) Certificates to be final**

All certificates, communications, opinions, determinations, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this Condition 5.2, whether by the Agent or the Calculation Agent or the Trustee, shall (in the absence of wilful default, bad faith or manifest error) be binding on the Issuer, the Agent, the Calculation Agent, the Trustee, the other Paying Agents and all Noteholders and Couponholders and (in the absence as aforesaid) no liability to the Issuer, the Noteholders or the Couponholders shall attach to the Agent, the Calculation Agent or the Trustee in connection with the exercise or non-exercise by them of their powers, duties and discretions pursuant to such provisions.

**5.3 Interest Accrual**

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

**6. Redemption and Purchase**

**6.1 Final redemption**

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

**6.2 Redemption for taxation reasons**

If the Issuer at any time satisfies the Trustee immediately prior to the giving of the notice referred to below that, on the date of the next payment due in respect of the Notes, the Issuer would be required (a) to pay additional amounts as provided under Condition 10 or (b) to account to any taxing authority in the United Kingdom for any amount (other than any tax withheld or deducted from interest payable on the Notes) calculated by reference to any amount payable in respect of the Notes, then the Issuer may (subject to Condition 6.6 and subject, if this Note is a Subordinated Note, to having obtained prior Relevant Supervisory Consent (as defined below)), having given not less than 15 nor more than 30 days' notice to the Trustee, the Agent and, in accordance with Condition 19, the Noteholders (which notice shall be irrevocable), redeem at any time (if this Note is not a Floating Rate Note) or on

the next Interest Payment Date (if this Note is a Floating Rate Note) all, but not some only, of the Notes at their Early Redemption Amount referred to in Condition 6.6 below, together, if applicable, with interest accrued to (but excluding) the date fixed for redemption. Upon the expiry of such notice, the Issuer shall be bound to redeem the Notes accordingly.

For the purposes of these Terms and Conditions, **Relevant Supervisory Consent** means the consent to the relevant redemption, payment, repayment or purchase, as the case may be, of the Prudential Regulation Authority (which, for the purposes of these Terms and Conditions, means the Prudential Regulation Authority or any other body performing the same or similar functions in relation to building societies (so long as the Issuer remains a building society) or banks (in the event that the Issuer transfers its business to a company pursuant to section 97 of the Building Societies Act 1986, as amended (the **Act**)).

### **6.3 Redemption at the option of the Issuer**

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

In the event of a redemption of some only of the Notes, such redemption must be for an amount being the Minimum Redemption Amount or a Higher Redemption Amount. In the case of a partial redemption of Notes, the Notes to be redeemed (**Redeemed Notes**) will be selected individually by lot, in the case of Redeemed Notes represented by definitive Notes, and in accordance with the rules of Euroclear and/or Clearstream, Luxembourg (to be reflected in the records of Euroclear and Clearstream, Luxembourg as either a pool factor or a reduction in nominal amount, at their discretion), in the case of Redeemed Notes represented by a Global Note, not more than 35 days prior to the date fixed for redemption (such date of selection being hereinafter called the **Selection Date**). In the case of Redeemed Notes represented by definitive Notes, a list of such Redeemed Notes will be published in accordance with Condition 19 not less than the minimum period specified in the applicable Final Terms prior to the date fixed for redemption. No exchange of the relevant Global Note will be permitted during the period from (and including) the Selection Date to (and including) the date fixed for redemption pursuant to this Condition 6.3 and notice to that effect shall be given by the Issuer to the Noteholders in accordance with Condition 19 at least 15 days prior to the Selection Date.

### **6.4 Redemption at the option of the Noteholders (other than holders of Subordinated Notes)**

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

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

## 6.5 Late Payment on Zero Coupon Notes

If the amount payable in respect of any Zero Coupon Note upon redemption of such Zero Coupon Note pursuant to Condition 6.1, 6.2, 6.3 or 6.4 above or upon its becoming due and repayable as provided in Condition 11 (if this Note is not a Subordinated Note) or Condition 12 (if this Note is a Subordinated Note) is improperly withheld or refused, the amount due and repayable in respect of such Zero Coupon Note shall be the amount calculated as provided in Condition 6.6(c) below as though the references therein to the date fixed for redemption or the date upon which such Zero Coupon Note becomes due and repayable were replaced by references to the date which is the earlier of:

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

## 6.6 Early Redemption Amounts

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

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

year, the sum of (A) the number of those days falling in a leap year divided by 366 and (B) the number of those days falling in a non-leap year divided by 365).

## **6.7 Purchases**

The Issuer or any of its Subsidiaries (as defined in the Trust Deed) may (having obtained, in the case of Subordinated Notes, prior Relevant Supervisory Consent) at any time purchase or otherwise acquire Notes (provided that, in the case of definitive Notes, all unmatured Coupons appertaining thereto are attached thereto or surrendered therewith) in any manner and at any price.

## **6.8 Cancellation**

All Notes which are (a) redeemed in full or (b) in the case of Subordinated Notes only, purchased by or on behalf of the Issuer or any Subsidiary of the Issuer will forthwith be cancelled (together with, in the case of definitive Notes, all unmatured Coupons attached thereto or surrendered therewith) and such Notes may not be reissued or resold. Notes (other than Subordinated Notes) purchased by the Issuer or any of its Subsidiaries may, at the option of the Issuer or such Subsidiary, be held, resold or cancelled.

## **7. Payments**

### **7.1 Method of Payment**

Subject as provided below:

- (a) payments in a currency other than euro will be made by transfer to an account in the relevant Specified Currency maintained by the payee with, or by a cheque in such Specified Currency drawn on, a bank in the principal financial centre of such Specified Currency (which, if the Specified Currency is Australian dollars or New Zealand dollars, shall be Sydney or Auckland, respectively); and
- (b) payments in euro will be made by credit or transfer to a euro account (or any other account to which euro may be credited or transferred) specified by the payee or by a euro cheque.

Payments will be subject in all cases to (i) any fiscal or other laws and regulations applicable thereto in the place of payment, but without prejudice to the provisions of Condition 10, and (ii) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986 (the **Code**) or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, any official interpretations thereof, or (without prejudice to the provisions of Condition 10) any law implementing an intergovernmental approach thereto. References in these Conditions to **Specified Currency** will include any successor currency under applicable law.

### **7.2 Presentation of Notes and Coupons**

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

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

any payment of principal and any payment of interest, will be made either on such Global Note by the Paying Agent to which it was presented or in the records of Euroclear and Clearstream, Luxembourg, as applicable.

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

Notwithstanding the foregoing:

- (a) the Issuer reserves the right to require Couponholders who do not make a declaration (such declaration being to the satisfaction of Her Majesty's Revenue and Customs (**HMRC**)) that they are not resident in the United Kingdom to present their Coupons at a specified office of a Paying Agent situated outside the United Kingdom if the Issuer would otherwise be obliged to account to any taxing authority in the United Kingdom for any amount in respect of income tax (other than any tax withheld or deducted from interest payable on the Notes) calculated by reference to the interest represented by the relevant Coupon; and
- (b) payments of interest in U.S. Dollars will only be made at the specified office of any Paying Agent in the United States (which expression, as used herein, means the United States of America (including the States and District of Columbia and its possessions)) (i) if (A) the Issuer shall have appointed Paying Agents with specified offices outside the United States with the reasonable expectation that such Paying Agents would be able to make payment at such specified offices outside the United States of the full amount of interest on the Notes in the manner provided above when due, (B) payment of the full amount of such interest at such specified offices outside the United States is illegal or effectively precluded by exchange controls or other similar restrictions and (C) such payment is then permitted under United States law without involving, in the opinion of the Issuer, adverse tax consequences to the Issuer and (ii) at the option of the relevant holder if such payment is then permitted under United States law without involving, in the opinion of the Issuer, adverse tax consequences to the Issuer.

Fixed Rate Notes in definitive form should be presented for payment together with all unmatured Coupons appertaining thereto (which expression shall include Coupons falling to be issued on exchange of matured Talons).

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

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



of such Note) which the gross amount actually available for payment bears to the principal amount of such Note.

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

Upon any Fixed Rate Note becoming due and repayable prior to its Maturity Date, all unmatured Talons (if any) appertaining thereto will become void and no further Coupons will be issued in respect thereof.

Upon the due date for redemption of any Floating Rate Note or Subordinated Note which is also a Fixed Rate Note in definitive form, all unmatured Coupons and Talons (if any) relating to such Note (whether or not attached) shall become void and no payment or, as the case may be, exchange for further Coupons shall be made in respect thereof.

### **7.3 Payment Day**

If any date for payment of any amount in respect of any Note or Coupon is not a Payment Day (as defined below), then the holder thereof shall not be entitled to payment of the relevant amount due until the next following Payment Day and shall not be entitled to any interest or other sum in respect of any such delay.

In this Condition, Payment Day means:

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

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

### **7.4 Interpretation of Principal and Interest**

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

- (a) any additional amounts which may be payable with respect to principal under Condition 10 or pursuant to any undertakings given in addition thereto or in substitution therefor pursuant to the Trust Deed;
- (b) the Final Redemption Amount of the Notes;

- (c) the Early Redemption Amount of the Notes;
- (d) the Optional Redemption Amount(s) (if any) of the Notes;
- (e) in relation to Zero Coupon Notes, the Amortised Face Amount; and
- (f) any premium and any other amounts (other than interest) which may be payable under or in respect of the Notes.

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

## **8. Exchange of Talons**

On and after the Interest Payment Date or the Fixed Interest Date (as appropriate) on which the final Coupon comprised in any Coupon sheet matures, the Talon (if any) forming part of such Coupon sheet may be surrendered at the specified office of the Agent or any other Paying Agent in exchange for a further Coupon sheet including (if such further Coupon sheet does not include Coupons to (and including) the final date for the payment of interest due in respect of the Note to which it appertains) a further Talon, subject to the provisions of Condition 13.

## **9. Agent and Paying Agents**

The names of the initial Agent and the other initial Paying Agents and their initial specified offices are set out below. If any additional Paying Agents are appointed in connection with any Series, the names of such Paying Agents will be specified in Part B of the applicable Final Terms. In the event of the appointed office of any such bank being unable or unwilling to continue to act as the Agent, or failing duly to determine the Rate of Interest, if applicable, or to calculate the Interest Amounts for any Interest Period, the Issuer shall appoint the London office of such other bank as may be approved by the Trustee to act as such in its place. The Agent may not resign its duties or be removed from office without a successor having been appointed as aforesaid. The Issuer may, with the prior approval of the Trustee, vary or terminate the appointment of any Paying Agent and/or appoint additional or other Paying Agents and/or approve any change in the specified office through which any Paying Agent acts provided that the Issuer will, so long as any of the Notes is outstanding, maintain (a) a Paying Agent (which may be the Agent) having a specified office in a city approved by the Trustee in continental Europe, (b) so long as any of the Notes have been admitted to listing, trading and/or quotation by any listing authority, stock exchange and/or quotation system, a Paying Agent (which may be the Agent) having a specified office in each location required by the rules and regulations of the relevant listing authority, stock exchange and/or quotation system, and (c) to the extent reasonably practicable, a Paying Agent in a Member State of the European Union that is not obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC 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 subparagraph (b) of the fourth paragraph of Condition 7.2.

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

## **10. Taxation**

All payments of principal and interest (if any) in respect of the Notes and Coupons by (or on behalf of) the Issuer shall be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments

or governmental charges of whatsoever nature imposed, or levied by the United Kingdom or any political subdivision thereof or by any authority thereof or therein having power to tax, unless the withholding or deduction for, or on account of, such taxes, duties, assessments or governmental charges is required by law. In that event, the Issuer will pay such additional amounts as may be necessary in order that the net amounts received by the Noteholders or, as the case may be, Couponholders after such withholding or deduction shall equal the respective amounts of principal and interest (if any) which would have been receivable in respect of the Notes or, as the case may be, Coupons in the absence of such withholding or deduction; except that no such additional amount shall be payable in respect of any Note or Coupon:

- (a) presented for payment by or on behalf of a holder who is liable to such taxes, duties, assessments or governmental charges in respect of such Note or Coupon by reason of his having some connection with the United Kingdom other than the mere holding of such Note or Coupon; or
- (b) presented for payment in the United Kingdom; or
- (c) presented for payment more than 30 days after the Relevant Date except to the extent that the holder thereof would have been entitled to such additional amounts on presenting the same for payment on such thirtieth day assuming that day to have been a Payment Day (as defined in Condition 7.3); or
- (d) where the holder is able to avoid such withholding or deduction by presenting an appropriate certificate; 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 or any law implementing or complying with, or introduced in order to conform to, such Directive; or
- (f) presented for payment by or on behalf of a holder who would be able to avoid such withholding or deduction by presenting the relevant Note or Coupon to another Paying Agent in a Member State of the European Union.

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

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

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

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

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

- (b) the Issuer defaults in performance or observance of or compliance with any of its other undertakings set out in the Notes or the Trust Deed which default is incapable of remedy or which, if capable of remedy, is not in the opinion of the Trustee remedied within 30 days (or such longer period as the Trustee may permit) after notice requiring remedy of such default shall have been given to the Issuer by the Trustee; or
- (c)
  - (i) any other present or future indebtedness in respect of moneys borrowed or raised in an amount of £40,000,000 or more (or its equivalent in any other currency) of the Issuer or any Principal Subsidiary becomes due and payable prior to its stated maturity pursuant to a default; or
  - (ii) any such indebtedness is not paid when due or (as the case may be) within any applicable grace period therefor; or
  - (iii) the Issuer or any Principal Subsidiary fails to pay when due or (as the case may be) within any applicable grace period therefor any amount payable by it under any present or future guarantee in an amount of £40,000,000 or more (or its equivalent in any other currency) (other than any guarantee given in the ordinary course of its business) for any indebtedness in respect of moneys borrowed or raised; or
  - (iv) any mortgage, charge, pledge, lien or other encumbrance present or future securing an amount of £40,000,000 or more (or its equivalent in any other currency) and created or assumed by the Issuer or any Principal Subsidiary becomes enforceable and the holder thereof takes any steps to enforce the same; or
- (d) a distress or execution or other similar legal process in respect of a claim for £20,000,000 or more is levied or enforced or sued out upon or against any part of the property, assets or revenues of the Issuer or any Principal Subsidiary and is not discharged or stayed within 30 days of having been so levied, enforced or sued out; or
- (e) the Issuer or any Principal Subsidiary becomes insolvent or is unable to pay its debts as they mature or applies for or consents to or suffers the appointment of a liquidator or receiver or administrator or similar officer of itself or the whole or any substantial part of its undertaking, property, assets or revenues or takes any proceeding under any law for a readjustment or deferment of its obligations or any part thereof or makes or enters into a general assignment or an arrangement or composition with or for the benefit of its creditors or stops or threatens to cease to carry on its business or any substantial part of its business except in any case in connection with a substitution pursuant to Condition 15 or for the purpose of a reconstruction, union, transfer, merger or amalgamation effected with the prior written consent of the Trustee, or in the case of a Principal Subsidiary in connection with the transfer of all or the major part of its business, undertaking and assets to the Issuer or another wholly-owned Subsidiary of the Issuer; or
- (f) an order is made or an effective resolution is passed for the winding up or dissolution of the Issuer or any Principal Subsidiary or the authorisation or registration of the Issuer is or is proposed to be cancelled, suspended or revoked or anything analogous or similar to any of the foregoing occurs (except in any case for the purposes of a reconstruction, union, transfer, merger or amalgamation effected with the consent of the Trustee or in the case of a voluntary solvent winding up of a wholly-owned Principal Subsidiary in connection with the transfer of all or the major part of its business, undertaking and assets to the Issuer or another wholly owned Subsidiary of the Issuer or in connection with a substitution pursuant to Condition 15).

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

- 11.3 If the Notes become due and repayable pursuant to this Condition, they shall be repayable at the Early Redemption Amount together (where applicable) with accrued interest as provided in the Trust Deed.
- 11.4 At any time after the Notes become due and repayable the Trustee may, at its discretion and without further notice, take such proceedings against the Issuer as it may think fit to enforce repayment of the Notes, but it shall not be bound to take any such proceedings unless (i) it shall have been so directed by an Extraordinary Resolution of the Noteholders or so requested in writing by Noteholders holding at least one-quarter in nominal amount of the Notes then outstanding and (ii) it shall have been indemnified to its satisfaction. No Noteholder or Couponholder may proceed directly against the Issuer unless the Trustee, having become bound to proceed, fails to do so and such failure is continuing.

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

- 12.1 This Condition shall apply only to Subordinated Notes.
- 12.2 The Trustee at its discretion may, and if so requested in writing by the holders of at least one-quarter of the nominal amount of Notes then outstanding or if so directed by an Extraordinary Resolution of the Noteholders shall, subject to being indemnified to its satisfaction, give notice to the Issuer that the Notes are, and they shall accordingly immediately become, due and repayable (a) if default is made for a period of seven days or more in the payment of any principal due on the Notes or any of them or for a period of 14 days or more in the payment of any interest due on the Notes or any of them or (b) if, otherwise than by virtue of Section 93(5), Section 94(10), Section 97(9) or Section 97(10) of the Act, the Issuer is dissolved by consent of its members, a special resolution of the members is passed that the Issuer be wound up voluntarily or a petition that the Issuer be wound up by the Court is granted or (c) if the registration of the Issuer under the Act is cancelled otherwise than under Section 103 (1) (a) of the Act. If the Notes become due and repayable, the Trustee may at its discretion institute proceedings for the winding up of the Issuer in England (but not elsewhere) to enforce the obligations of the Issuer in respect of the Notes and the Trust Deed in so far as it relates to the Notes; provided that no repayment of principal in respect of the Notes may be made by the Issuer pursuant to this Condition 12.2, nor will the Trustee accept the same, otherwise than during or after a winding up or dissolution of the Issuer, save with Relevant Supervisory Consent. For the purposes of this paragraph, a payment shall be deemed to be due even if the requirement as to solvency set out in Condition 3(a) is not satisfied.
- 12.3 No Noteholder or Couponholder shall be entitled to proceed directly against the Issuer unless the Trustee, having become bound so to proceed, fails to do so, in which case any such holder shall have only such rights against the Issuer as those which the Trustee is entitled to exercise. No such holder shall be entitled to institute proceedings for the winding up of the Issuer, or to prove in any winding up of the Issuer, except that if the Trustee, having become bound to proceed against the Issuer as aforesaid, fails to do so, or, being able to prove in any winding up of the Issuer, fails to do so, then any such holder may, on giving an indemnity satisfactory to the Trustee, in the name of the Trustee (but not otherwise) himself institute proceedings for the winding up in England (but not elsewhere) of the Issuer and/or prove in any winding up of the Issuer to the same extent (but not further or otherwise) that the Trustee would have been entitled so to do in respect of such Notes and/or Coupons held by him. No remedy against the Issuer, other than the

institution of proceedings for the winding up in England of the Issuer or the proving or claiming in any winding up of the Issuer, shall be available to the Trustee or such holders for the recovery of amounts owing in respect of such Notes or the relative Coupons or under the Trust Deed in so far as it relates to the Notes or the relative Coupons.

- 12.4 If the Notes become due and repayable pursuant to this Condition, they shall be repayable at their Early Redemption Amount together (where applicable) with accrued interest as provided in the Trust Deed.
- 12.5 The Trustee may at its discretion institute such proceedings as are contemplated by this Condition against the Issuer to enforce the obligations of the Issuer under the Trust Deed in so far as it relates to the Notes or the relative Coupons, but it shall not be bound to institute any such proceedings unless (a) it shall have been so directed by an Extraordinary Resolution of the holders of the Notes or so requested in writing by Noteholders holding at least one-quarter in nominal amount of the Notes then outstanding and (b) it shall have been indemnified to its satisfaction.

### **13. Prescription**

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

### **14. Meetings of Noteholders, Modification and Waiver**

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

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

An Extraordinary Resolution passed at any meeting of Noteholders will be binding on all Noteholders, whether or not they are present at the meeting, and on all Couponholders.

The Trust Deed provides that the Trustee may agree, without the consent of the Noteholders or Couponholders, to any modification (subject to certain exceptions) of, or to the waiver or authorisation of any breach or proposed breach of, any of these Terms and Conditions or any of the provisions of the Trust Deed which is not, in the opinion of the Trustee, materially prejudicial to the interests of the Noteholders or to any modification which is of a formal, minor or technical nature or which is made to correct a manifest error. Any such modification, waiver or authorisation shall be binding on the Noteholders and Couponholders and, unless otherwise agreed by the Trustee, any such modification shall be notified to the Noteholders as soon as practicable thereafter in accordance with Condition 19.

In connection with the exercise by it of any of its trusts, powers or discretions (including, without limitation, any modification, waiver, authorisation or substitution), the Trustee shall have regard to the interests of the Noteholders as a class and, in particular but without limitation, shall not have regard to the consequences of the exercise of its

trusts, powers or discretions for individual Noteholders or Couponholders resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory and the Trustee shall not be entitled to require, nor shall any Noteholder or Couponholder be entitled to claim, from the Issuer, or any other person any indemnification or payment in respect of any tax consequence of any such exercise upon individual Noteholders or Couponholders except to the extent already provided for in Condition 10 and/or any undertaking given in addition to, or in substitution for, Condition 10 pursuant to the Trust Deed.

## **15. Substitution**

### **15.1 Provisions relating to Ordinary Notes and Deposit Notes**

- (a) Subject as provided in the Trust Deed, the Trustee, if it is satisfied that so to do would not be materially prejudicial to the interests of the Noteholders, may agree, without the consent of the Noteholders or Couponholders, to the substitution of any successor in business of the Issuer or of a Subsidiary of the Issuer or any such successor in business, not being in any such case a building society formed by the amalgamation of the Issuer and one or more other building societies pursuant to Section 93 of the Act or a building society to which the Issuer has transferred all of its engagements pursuant to Section 94 of the Act or the successor in accordance with Section 97 of the Act, in place of the Issuer as principal debtor under the Ordinary Notes or Deposit Notes and the Trust Deed in respect of the Notes, provided (in case of the substitution of any company which is a Subsidiary of the Issuer or such successor in business) that the obligations of such Subsidiary in respect of the Notes and the Trust Deed in respect thereof shall be guaranteed by the Issuer or such successor in business in such form as the Trustee may require.
- (b) The Issuer has covenanted with the Trustee in the Trust Deed that it will not transfer its business to a successor in accordance with Section 97 of the Act unless either (i) the Trustee is satisfied that the successor will be or (as the case may be) remain an authorised person under the FSMA (or any statutory modification or reenactment thereof) or (ii) such transfer is approved by an Extraordinary Resolution of the Noteholders.

### **15.2 Provisions relating to Subordinated Notes**

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

- (a) it will either deliver evidence reasonably satisfactory to the Trustee that the Transferee Company is an authorised person for the purposes of the FSMA (or any statutory modification or reenactment thereof) or, if such evidence is not so delivered, procure that such transfer is approved by an Extraordinary Resolution of the Noteholders; and
- (b) it will, and will procure that the Transferee Company will, execute a deed supplemental to the Trust Deed which has the effect of ensuring to the reasonable satisfaction of the Trustee that (i) the Transferee Company is bound by the terms of the Trust Deed in respect of the Subordinated Notes and these Terms and Conditions as fully as if all and any references therein to the Issuer were references to the Transferee Company and (ii) the rights of the holders of the Subordinated Notes and any relative Coupons (A) are subordinated and postponed to the claims of the persons who are holders of investment shares which are qualifying shares (as defined in Section 100(3) of the Act) in the Issuer in respect of claims arising by virtue of Section 100(2)(a) of the Act and which are represented by those qualifying shares and to the claims of other unsecured but unsubordinated creditors of the Transferee Company but (B) will be such that they rank in priority to the holders of the issued share capital of the Transferee Company, and containing such other provisions as the Trustee (having regard in particular to the foregoing) may reasonably require; provided that no variation or supplement to the terms of the Trust Deed or of these Terms and Conditions shall be

made in any such supplemental deed which would or might cause any of the own funds or capital resources of the Issuer which at that time are considered appropriate by the Prudential Regulation Authority for inclusion in the calculation of the Issuer's capital adequacy for the purposes of paragraph 4(1) of Schedule 6 to the FSMA and to which such terms relate, to be excluded from the own funds or capital resources which at that time are considered appropriate by the Prudential Regulation Authority for inclusion in the calculation of the Transferee Company's capital adequacy for the purposes of paragraph 4(1) of Schedule 6 to the FSMA.

### **15.3 Provisions relating to all Notes**

- (a) The Issuer has covenanted with the Trustee in the Trust Deed that it will not enter into any arrangement for the transfer of its engagements to another building society pursuant to Section 94 of the Act unless it transfers all its engagements to such society or such transfer has been approved by the Trustee or by an Extraordinary Resolution of the Noteholders.
- (b) If the Issuer shall amalgamate with one or more other building societies pursuant to Section 93 of the Act or transfer all of its engagements to another building society pursuant to Section 94 of the Act or transfer the whole of its business to a successor in accordance with Section 97 of the Act, the successor will, pursuant to such provisions, automatically be substituted in place of the Issuer as principal debtor under the Trust Deed, the Notes and any Coupons without any prior approval thereof being required from the Noteholders, the Couponholders or the Trustee (but without prejudice to the provisions of Conditions 15.1(b) and 15.2 above).
- (c) Any substitution pursuant to this Condition 15 shall be binding on the Noteholders and the Couponholders and, unless the Trustee agrees otherwise, shall be notified to the Noteholders as soon as practicable thereafter in accordance with Condition 19.

*Prospective Noteholders are referred to the section headed "CONSEQUENCES OF THE BUILDING SOCIETIES ACT FOR NOTEHOLDERS" on page 67 for a description of the ranking of the claims of Noteholders following a transfer in accordance with Section 97 of the Act.*

### **16. Further Issues**

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

### **17. Replacement of Notes, Coupons and Talons**

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

### **18. Indemnification of, and transactions by, the Trustee**

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility in certain circumstances including provisions relieving it from instituting proceedings to enforce repayment unless



indemnified to its satisfaction. The Trustee is entitled to enter into business transactions with the Issuer or any Subsidiary of the Issuer without accounting for any profit resulting therefrom.

## **19. Notices**

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

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

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

## **20. Governing Law**

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

## **21. Contracts (Rights of Third Parties) Act 1999**

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

## **22. Definitions**

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

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

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

## **USE OF PROCEEDS**

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

## **CONSEQUENCES OF THE BUILDING SOCIETIES ACT FOR NOTEHOLDERS**

The Act includes provisions under which a building society may transfer the whole of its business to a company. At present, the claims of depositors and other unsubordinated creditors of the Issuer would rank ahead of share accounts 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 Act), 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.

Following a transfer of business to a company by the Issuer the obligations under the Notes (other than Subordinated Notes) 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 Notes, (b) equally with other unsecured and unsubordinated creditors (including interbank lenders and retail depositors) and (c) behind any statutorily preferential creditors.

Following a transfer of business to a company by the Issuer the obligations under the Subordinated Notes 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 the Subordinated Notes, (b) equally with other subordinated creditors and (c) behind any statutorily preferential creditors and other unsubordinated creditors (including interbank lenders and retail depositors).

## DESCRIPTION OF THE SOCIETY

### *Overview*

The Society is a building society, incorporated in England and Wales under the United Kingdom Building Societies Act 1986, as amended, and authorised by the PRA and regulated by the FCA in relation to conduct of business matters and by the PRA in relation to prudential requirements. The Society's FCA Mutuals Public Register Number is 355B. The principal office of the Society is Nationwide Building Society, Nationwide House, Pipers Way, Swindon, SN38 1NW (phone number +44 (0) 1793 513 513). The Society is the largest building society in the United Kingdom in terms of total assets, with £191 billion of assets as at 4 April 2013. It is the third largest residential mortgage lender in the United Kingdom and the second largest UK savings provider (as calculated by the Society based on BoE data). The Society's 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, the Society maintains an investment portfolio of debt securities for its own account.

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

Profits on ordinary activities after tax for the year ended 4 April 2013 and the year ended 4 April 2012 were £210 million and £179 million, respectively. The Society's lending activities are predominantly concentrated on secured lending, with residential mortgages accounting for 85 per cent. of its total loans and advances to customers.

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

## History and Development

Building societies have existed in the United Kingdom for over 200 years. From the outset, they were community-based, cooperative organisations created to help people purchase homes. The main characteristic of building societies is their mutual status, meaning that they are owned by their members, who are primarily retail savings customers and residential mortgage customers. The Society's 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 30 years, many building societies have merged with other building societies or, in some cases, transferred their businesses to the subsidiary of another mutual organisation or demutualised and transferred their businesses to existing or specially formed banks. As a result, the number of building societies in the United Kingdom has fallen dramatically over the same period. One consequence of this decrease is that the majority of the Society's competitors are banks. The Society believes that its mutual status allows it to compete successfully with banks, and it is the strategy of the Society to remain a building society. At its annual general meeting in 1998, its members voted against a proposal to demutualise and no subsequent motion to demutualise has since been proposed at a general meeting of the Society. However, it is possible that another motion to demutualise could be proposed and voted upon at a future general meeting. For a discussion of the risks associated with a demutualisation, see the section entitled *"Risk Factors—Factors that may affect the Issuer's ability to fulfil its obligations under Notes issued under the Programme—Demutualisation, mutual society transfers and consequences of the Act may have an adverse impact on the holders of Notes."*

In 1997, when many of the competitors of the Society that were building societies demutualised, the Society experienced a sharp increase in the number of new United Kingdom member retail savings accounts. It believes that many of these accounts were opened because customers expected the Society to demutualise and wanted to receive any associated windfall distributions. To prevent the disruption caused by speculative account opening, the Society has generally required all new members opening accounts after November 1997 to assign to charity any windfall benefits they might otherwise have received as a result of a future demutualisation.

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

## Strategy

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

- its members;
- its people; and
- its business model.

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

## ***Members***

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

The Society is currently a leading provider of retail savings and residential mortgage products in the UK. In order to achieve its aim of being the first choice for financial services, it is positioning itself as a meaningful and viable alternative brand in the provision of current accounts, personal loans and credit cards. In particular, the Directors believe that current accounts are critical in enabling the Society to cultivate broader and deeper relationships with new and existing customers. The Society's strategic goals over the next five years include growing its current market share in the mortgages sector to 12 per cent., in the savings sector to 10 per cent., in the personal current accounts sector to 10 per cent. and expanding its presence in all other personal finance product lines to achieve a market share of at least 5 per cent.

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

- Maintain its position as a leading provider of customer service—in particular, the Society intends to increase the profile of its brand and to continue to reinforce its service culture through its "Pride" values, reward structure and continued service monitoring and feedback across all customer interaction points;
- Focus on its current account offering as the gateway product to deeper and broader customer relationships and on building scale across all products, in particular through the development of a holistic financial planning service. The Society's new banking system, a core delivery of its transformation programme, has delivered the first products in a new range of current accounts designed to attract new customers and provide greater choice to existing customers;
- Optimise its distribution facilities to ensure it matches changing customer trends, while providing an efficient and effective means of driving revenue—in particular, the Society has introduced a new internet bank which became operational in 2011 as part of its transformation programme. The Society also expects to rationalise its branch network to reduce overlap and update its existing branches and to continue to develop its other electronic distribution channels with a view to reducing costs and increasing customer choice; and
- Continue to develop new systems and processes to deliver a range of new banking and savings products and ensure that its processes are orientated to deliver leading customer service—the new banking platform delivered through the transformation programme is a key element of this strategy.

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

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

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

The Society operates in a commercially competitive manner, aiming to be as cost-efficient as its competitors in the banking sector in order to maintain its mutual pricing advantage, while providing industry leading levels of employee engagement and enablement. In this connection, a shared services approach is expected to be implemented across the Society with a view to reducing costs and improving efficiency.

### ***People***

The Society has a culture, underpinned by its heritage, which drives the right customer outcomes, making it different from the banks. It recruits, develops and rewards the right values, professional standards and behaviours in its people. As mentioned above, the Society intends to continue to reinforce its service culture through its "Pride" values, reward structure and continued service monitoring and feedback across all customer interaction points.

### ***Business model***

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

The Society's transformation programme is a key part of its business diversification strategy with its new banking system, and internet banking in particular, intended to drive greater penetration into the personal current accounts market. The Society also intends to continue to expand its already strong presence in the residential buy-to-let market and to establish itself more fully in non-retail business streams by offering a wider range of banking services to the small and medium-sized enterprise (SME) market and broadening its commercial deposit taking activities. The Society sees the planned expansion into the SME market as a natural extension of its current business and intends to adopt a cautious approach to its expansion, seeking to limit its risk exposure and to gain experience before broadening its offering to a wider customer base. To that end, it aims to launch a banking proposition for microbusinesses (being businesses with an annual turnover of up to £2 million) in the second half of its financial year ended 4 April 2014, followed by one for medium-sized enterprises (being enterprises with an annual turnover of between £2 million and £10 million) in its financial year ended 4 April 2015. The products are expected to be simpler and more transparent than those currently available to the SME market and the Society intends to use its existing technical and physical infrastructure to offer a market-leading level of service. The proposition will be led by deposit products, with an initial target of raising £6 billion in deposits and increasing lending by £3 billion by the end of the Society's financial year ended 4 April 2018, although the Society's ability to achieve these targets is dependent on a range of factors outside its control and no assurance is given that the targets will be achieved in the timeframe envisaged.

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

### ***Strategic goals***

The Society's principal five-year strategic goals are to:

- Be the first choice for financial services;

- Be the clear number one in service satisfaction with a demonstrable lead of at least 6 per cent. over the next best competitor;
- Grow its base of valuable customer relationships to at least 7.5 million;
- Have a Core Tier 1 capital ratio in the top quartile of its peer group comparison;
- Maintain average risk weighting in the bottom quartile of its peer group comparison;
- Become self-sufficient in capital with a profit of £1 billion per annum;
- Achieve the high performance external benchmark for both employee enablement and engagement as measured by ViewPoint; and
- Run an efficient business with a cost income ratio of between 45 per cent. and 50 per cent.

## **Lending**

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

### ***United Kingdom Residential Mortgage Lending to Individuals***

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

As at 4 April 2013, the Society was the third largest mortgage lender in the United Kingdom (as measured by total loans outstanding) (as calculated by the Society based on BoE data). As at 4 April 2013, its total prime and specialist residential mortgage lending amounted to £135.6 billion (£128.8 billion as at 4 April 2012). During the year ended 4 April 2013, the Society's net new prime and specialist residential mortgage lending to individuals amounted to £6.5 billion (compared to £2.7 billion for the year ended 4 April 2012). Its residential mortgages are generally for terms of 20 to 30 years. While many customers remain with the Society for much or all of this term, some customers redeem their mortgage earlier than this in order to remortgage to another lender or for other reasons. The minimum life of a mortgage is usually between two and five years, depending on the terms of the customer's initial product, although the Society generally retains approximately 85 to 90 per cent. of customers when they reach the end of a product.

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



Below is a table showing the geographical distribution of the Society's United Kingdom residential mortgage loans as at 4 April 2013:

|  | <b>% of UK residential mortgage<br/>lending to individuals as at 4<br/>April 2013</b> |
|--|---|
| <b>Region</b>                              |   |
| Greater London.....                        | 22%   |
| Central England.....                       | 22%   |
| Northern England.....                      | 20%   |
| South East England (excluding London)..... | 11%   |
| South West England.....                    | 9%  |
| Scotland.....                              | 8%  |
| Wales and Northern Ireland.....            | 7%  |
| <b>Total</b> .....                         | <b>100%</b>   |

Source: CACI Limited

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

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

The asset quality of the Society has remained strong as a result of its continued prudent approach to lending. The Group is committed to supporting the housing market, and first time buyers in particular, and as a result the average LTV of residential mortgages completed has increased to 67 per cent. (4 April 2012: 63 per cent.). The indexed LTV for the whole residential portfolio has remained broadly stable at 51 per cent. (4 April 2012: 50 per cent.). Only 7 per cent. of the Society's total mortgage book has an LTV in excess of 90 per cent based on value. The proportion of the Group's mortgage accounts three months or more in arrears has reduced to 0.72 per cent. as at 4 April 2013 (4 April 2012: 0.73 per cent.), this compares favourably with the CML industry average of 1.89 per cent.

The following table compares the Society's loans in arrears:

|                     | <b>Prime and specialist residential<br/>and lending as at 4 April 2013</b> |
|---------------------|--|
| <b>Arrears</b>      |  |
| 3-6 months.....     | 0.35%  |
| 6-12 months.....    | 0.24%  |
| Over 12 months..... | 0.13%  |

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

The Society focuses its residential mortgage sales efforts on first-time buyers, subsequent purchasers moving home and the remortgage market. In current market conditions, the Society is particularly keen to support its existing members and it has introduced products to support first-time buyers. First-time buyers offer a significant potential for additional sources of income through the distribution of insurance and personal investment products. During the year ended 4 April 2013, 27 per cent. of residential mortgage advances calculated on a volume basis were to first-time buyers and 73 per cent. to experienced buyers. This compares to the year ended 4 April 2012 when 17 per cent. of residential mortgage advances were to first-time buyers and 83 per cent. to experienced buyers.

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

### ***Specialist UK Residential Mortgage Lending to Individuals***

The Society offers specialist UK residential mortgage lending to individuals, which comprises lending to private landlords (buy-to-let) and other non-conforming lending.

As at 4 April 2013, the Society's outstanding specialist UK residential mortgage lending to individuals was £25.0 billion. The specialist residential mortgage balance is made up of advances made through its specialist lending brands, The Mortgage Works (UK) plc (TMW) and UCB Home Loans Limited, and from the acquisitions of the Cheshire, Derbyshire and Dunfermline building societies' portfolios. Its outstanding specialist lending loans were advanced primarily in the buy-to-let and self-certification markets. New specialist lending is restricted to buy-to-let via TMW with the Society having withdrawn from the self-certified lending market in 2009. A breakdown of the Society's specialist UK residential mortgage lending outstanding balances as at 4 April 2013 is shown in the table below:

|                      | <b>% of specialist UK<br/>residential mortgage<br/>lending to individuals<br/>at 4 April 2013</b> |
|----------------------|---|
| Buy-to-let.....      | 80%   |
| Self-certified ..... | 13%   |
| Near prime           | 5%  |
| Sub prime.....       | 2%  |
| <b>Total.....</b>    | <b>100%</b>   |

TMW is an important provider of high-quality loans to the buy-to-let sector. Over the past year, TMW gross advances were £3.3 billion (4 April 2012: £4.4 billion), representing 19.5 per cent. market share, with net lending of £1.6 billion (4 April 2012: £2.8 billion). The Society's total specialist mortgage book stood at £25.0 billion as at 4 April 2013 (4 April 2012: £23.2 billion).

There has been a reduction in specialist arrears as a result of reducing arrears volumes on the self originated books, and strong book growth in TMW. TMW continues to maintain a very favourable arrears position relative to the industry on both originated business and total lending including acquired loans. The Society's specialist mortgages continue to perform well with cases three months or more in arrears representing only 1.75 per cent. of the total mortgage book as at 4 April 2013 (4 April 2012: 1.87 per cent.), which compares favourably to the overall industry

measure (*Source*: Council of Mortgage Lenders), that is inclusive of prime lending, of 1.87 per cent. as at 4 April 2013 (4 April 2012: 1.95 per cent.).

### ***Commercial Secured Lending***

The Society engages in commercial secured lending, which at 4 April 2013 accounted for 13 per cent. of its total loan assets. To maintain a prudent balance between its asset classes, the Society currently has a 20 per cent. cap on commercial lending as a percentage of its total lending (book balances). The Society intends to maintain a low risk exposure to commercial secured lending and to maintain the existing level of credit quality throughout its commercial loan portfolio.

The amount and types of loans in the commercial portfolio as at 4 April 2013 were as follows:

|                                 | <b>As at 4 April 2013</b> |                                    |
|---------------------------------|---------------------------|------------------------------------|
|                                 | <b>£ billion</b>          | <b>% of total commercial loans</b> |
| <b>Commercial Secured Loans</b> |                           |                                    |
| Property Finance                | 10.2                      | 51%                                |
| Registered Social Landlords     | 8.2                       | 41%                                |
| Project Finance                 | 1.5                       | 8%                                 |
| <b>Total</b>                    | <b>19.9</b>               | <b>100%</b>                        |

Loans made to UK Registered Social Landlords are secured on residential property and differ significantly from other loans secured on real property. UK Registered Social Landlords provide affordable housing supported by government grants. This portfolio historically has carried a lower risk than the Society's other commercial lending activities, and there are currently no arrears of three months or more in the Society's Registered Social Landlord portfolio. To date the Society has not needed to raise any loss provisions against this portfolio. The Society is the largest lender to UK Registered Social Landlords by amount of assets lent.

Loans advanced in relation to Project Finance are secured on cash flows from government backed contracts such as schools, hospitals and roads under the UK Private Finance Initiative legislation, and include assets acquired from Derbyshire, Cheshire and Dunfermline building societies. Again, the Group has never suffered any losses on lending in these markets and there are currently no arrears of three months or more.

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

## ***Consumer Banking***

The Society engages in personal banking, which accounted for 2.1 per cent. of its total loan assets as at 4 April 2013 and 1.9 per cent. of its total loan assets as at 4 April 2012.

### ***Unsecured Consumer Banking***

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

There is a greater risk of loss on unsecured consumer lending than there is on residential mortgage lending because the Society has no security if the borrower defaults on the loan. Accordingly, unsecured consumer lending products bear higher interest rates than the residential mortgage products of the Society. To manage this risk, it uses an automated credit scoring system that is designed to evaluate a borrower's ability to repay the loan. In addition, the Society imposes a maximum limit on the size of unsecured consumer loans and encourages customers to take out payment protection insurance.

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

## **Retail Funding**

The great majority of the Society's retail funding is in the form of United Kingdom retail member deposits. In addition, the Society accepts offshore deposits and deposits which do not convey member status. As at 4 April 2012 the Society had United Kingdom retail member deposits of £125.6 billion, which remained broadly stable at £125.6 billion as at 4 April 2013. United Kingdom retail member deposits represented 65.8 per cent. of the Society's total liabilities and reserves at 4 April 2013.

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

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

The United Kingdom 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***

The current account of the Society, called FlexAccount, is the Society's chequeing and day-to-day transactional product. Holders of FlexAccounts may be eligible for ATM cards, cheque books, overdraft facilities 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***

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

Despite recent economic events, the Society's credit card asset quality remains strong. The Society's percentage of credit card balances more than 30 days in arrears was 3.24 per cent. as at 4 April 2013 having fallen from 3.34 per cent. as at 4 April 2012. Asset quality is monitored constantly both for new and existing exposures, and where published data is available the Society's performance compared with the industry remains favourable.

### ***Offshore Savings***

The Society offers offshore savings through its Isle of Man subsidiary, Nationwide International Limited, to give it access to another funding source. Nationwide International Limited offers demand and notice accounts in sterling, U.S. dollars and euros mainly to offshore investors. As at 4 April 2013, Nationwide International Limited had deposits of £5.3 billion.

### ***Other Banking Services***

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

### ***Treasury Operations***

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

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

The Society maintains two liquid asset portfolios, categorised as core liquidity and non-core liquidity:

- core liquidity totalled £16.9 billion as of 4 April 2013 (compared to £24.8 billion at 4 April 2012). Core liquidity comprises cash and highly rated debt securities issued by governments or multilateral development banks; and
- non-core liquidity totalled £6.9 billion as at 4 April 2013 (compared to £9.5 billion at 4 April 2012) with 87 per cent. of its assets rated A or better. The non-core portfolio comprises available for sale assets held for investment purposes, plus balances in clearing accounts.

The Society raises funds from the money and debt capital markets, accepting time deposits and issuing certificates of deposit, commercial paper and medium-term notes. Funding from wholesale markets decreased to £43.4 billion as at 4 April 2013 from £49.1 billion as at 4 April 2012, representing a wholesale funding ratio of 22.5 per cent. (compared to 25.3 per cent. as at 4 April 2012).

The Society aims to achieve a diversified mix of wholesale funding by currency, investor category and maturity to prevent dependence on any particular funding sector. The Society has a variety of programmes in place so that it can meet its short-term and long-term funding needs, including:

- Euro certificate of deposit and commercial paper programme;
- U.S. commercial paper programme;
- Canadian commercial paper programme;
- French commercial paper programme;
- Euro medium-term note programme;
- U.S. medium-term note programme;
- Covered Bond programme; and
- Australian medium-term note and commercial paper programme.

The Society does not operate a trading portfolio.

### **Protection and Investments**

Income from protection and investments has continued to grow, increasing from £106 million for the year ended 4 April 2012 to £122 million for the year ended 4 April 2013, in line with the Society's strategic focus to diversify its income stream.

### **Insurance**

In conjunction with its core business of providing residential mortgage loans and retail savings, the Society develops and sells insurance products branded with its name that are underwritten by third-party insurers. The Society sold its subsidiary Nationwide Life Limited to Legal & General on 31 January 2008 and as a result it no longer underwrites its own life assurance products. As part of an agreement, the Society distributes insurance products of Legal & General. The Society has also entered into a new strategic distribution agreement for the supply of motor and travel insurance with Liverpool Victoria to provide its customers with a broader range of competitively priced products from one of the UK's top financial services companies.

Other income from general insurance grew by 22 per cent. and from protection and investment by 15 per cent. in the year ended 4 April 2013, reflecting the success of the Society's ongoing diversification strategy.

### ***Products Underwritten by Third Parties***

The insurance products marketed by the Society are:

- buildings and contents insurance, which the Society markets to its residential mortgage customers and non-mortgage customers;
- payment protection products, covering loan repayments in case of sickness, unemployment or disability;
- landlord insurance;

- term income protection insurance, replacing up to 60 per cent. of gross income in case of unemployment;
- motor insurance; and
- personal accident insurance.

The Society typically uses leading insurers as third-party underwriters for these insurance products. It receives a commission and, in some cases, participates in the profits, but not the losses, from third-party underwritten insurance products that it markets. This provides the Society with a significant source of non-interest income, and in the years ended 4 April 2013 and 4 April 2012 it earned £160 million and £140 million, respectively, from general insurance fees. It generally markets its insurance products to new and existing customers, and it is the Society's policy to offer insurance products at competitive prices and with more comprehensive coverage than those products generally offered by the main competitors of the Society.

### **Distribution Network**

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

The Society distributes its products primarily through:

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

### ***Branches***

The branch network of the Society continues to be a major source of its mortgage lending and retail funding. As at 4 April 2013 it had 750 branches of Nationwide Building Society in the United Kingdom and the Isle of Man. The Society believes that its branch network is an integral part of its distribution network and expects to maintain its current size.

The Society's goal is to utilise its branch network efficiently. All of its branches market its residential mortgage, retail savings, personal lending, personal investment and insurance products. The Society commenced a transformation programme in 2008 to replace ageing legacy systems and to improve product innovation and customer service. The Society's new mortgage sales system has improved the service it is able to offer its intermediary customers.

### ***ATMs***

The Society had more than 1,750 ATMs at 4 April 2013, including some placed in retail stores, train stations, petrol stations and other remote locations. In addition, the Society's customers also have access to ATMs in the United Kingdom through the LINK and Cirrus networks and world-wide through the VISA network.

### ***Call Centres***

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

### ***Mail***

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

### ***E-commerce***

The Society launched an internet banking service in 1997. Its website allows customers to transact on their accounts and apply for a broad range of its products online.

### ***Agents***

Agents are third parties that the Society appoints to market its products and perform retail transactions. Agents are typically intermediary financial advisers or real estate agents and increase the Society's retail distribution network. The Society remunerates agents for the transactions and sales they perform.

### ***Intermediaries***

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

### ***Employees***

For the year ended 4 April 2013, the Society employed, on average, 17,019 full and part-time employees. Set out below are the average number of employees of the Society during the years ended 4 April 2013, 2012 and 2011, respectively:

| <b>Average number of employees</b> | <b>for the year ended 4 April</b> |               |               |
|------------------------------------|-----------------------------------|---------------|---------------|
|                                    | <b>2013</b>                       | <b>2012</b>   | <b>2011</b>   |
| Full-time .....                    | 12,720                            | 13,156        | 12,879        |
| Part-time .....                    | 4,299                             | 4,550         | 4,813         |
| <b>Total</b> .....                 | <b>17,019</b>                     | <b>17,706</b> | <b>17,692</b> |

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



## Principal Subsidiaries

The interests of the Society in its principal subsidiary undertakings, all of which are consolidated, as at 4 April 2013, are set out below:

| <b>100% held subsidiary undertakings</b>          | <b>Nature of business</b>   |
|---|-----------------------------|
| Nationwide International Limited <sup>(1)</sup>   | Offshore deposit taker      |
| Nationwide Syndications Limited                   | Syndicated lending          |
| The Mortgage Works Limited                        | Centralised mortgage lender |
| Derbyshire Home Loans Limited <sup>(1)</sup>      | Centralised mortgage lender |
| E-Mex Home Funding Limited <sup>(1)</sup>         | Centralised mortgage lender |
| UCB Home Loans Corporation Limited <sup>(1)</sup> | 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 which are registered in England and Wales and operate in the United Kingdom except for Nationwide International Limited, which is registered and operates in the Isle of Man.

The Society has interests in a number of entities which give rise to the risks and rewards that are in substance no different than if they were subsidiary undertakings. As a consequence, these entities are consolidated in its accounts.

The interests of the Society in these principal entities as at 4 April 2013 are set out below:

| <b>Other Group undertakings</b> | <b>Nature of business</b>                           | <b>Country of registration</b> | <b>Country of operation</b> |
|---------------------------------|---|--------------------------------|-----------------------------|
| 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                          |

## Properties

The Society's property interests consist of its branches and non-specialised buildings which may be owned or leased, as well as its head office/administration centres (which it owns) and a small number of residential properties held for rental. For further information see note 21 to the Society's audited consolidated financial statements for the year ended 4 April 2013 incorporated by reference herein.

## Financial Services Compensation Scheme

Like other UK financial institutions, the Society pays levies based on its share of protected deposits to the FSCS to enable the FSCS to meet claims against it. In 2008 a number of institutions were declared in default by the FSA. The FSCS has met the claims by way of loans received from HM Treasury. These loans total approximately £18 billion. 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.

While it is anticipated that the majority of the borrowings will be repaid wholly from recoveries from the institutions concerned, there is an expected shortfall in relation to the refinancing loan between the FSCS and HM Treasury which took place in March 2012 which has been communicated as being an industry total of £363 million for the 2013/2014 scheme year. This shortfall is to be levied from all firms holding protected deposits including the Group.

The Group also has a potential exposure to future levies resulting from the failure of the Dunfermline Building Society. The quantification and timing of such losses have yet to be determined and hence, although the Group's share could be significant, no provision has been recognised. As further information is provided by the FSCS scheme the Group will continue to update its estimate of the amount of FSCS levies the Group will ultimately be required to pay.

As at 4 April 2013, the Group held a provision of £133 million in respect of the 2012/2013 and 2013/2014 scheme years (4 April 2012: £111 million in respect of the 2011/2012 and 2012/2013 scheme years). Included within the provision is £44 million, which represents the Society's share of the £363 million expected shortfall described above.

### Bank Levy

On 19 July 2011, the Finance Act 2011 came into force, including the bank levy requirements enacted by section 73 and Schedule 19 thereof. The levy applies to UK banking groups, building societies and the operations of non-UK banks in the UK, but an allowance is given against the first £20 billion of chargeable equity and liabilities, meaning that smaller institutions will effectively be exempted from the levy charge. Certain liabilities are excluded from the chargeable equity and liabilities, including Tier 1 capital, insured retail deposits and repos secured on sovereign debt. Additionally, certain high quality liquid assets on the balance sheet are eligible to reduce the amount of liabilities in the charge. Levy rates have been announced as follows:

| Period                             | Rates                  |                       |
|------------------------------------|------------------------|-----------------------|
|                                    | Short-term liabilities | Long-term liabilities |
| 1 January 2011 to 28 February 2011 | 0.05%                  | 0.025%                |
| 1 March 2011 to 30 April 2011      | 0.1%                   | 0.05%                 |
| 1 May 2011 to 31 December 2011     | 0.075%                 | 0.0375%               |
| 1 January 2012 to 31 December 2012 | 0.088%                 | 0.044%                |
| 1 January 2013 to 31 December 2013 | 0.130%                 | 0.065%                |
| From 1 January 2014                | 0.142%                 | 0.071%                |

The Society's financial statements for the year ended 4 April 2013 reflect a charge for the levy in the amount of £16 million. This compares to a charge of £16 million for the year ended 4 April 2012, which was split between a £3 million charge for the period starting on 1 January 2011 and ending on 4 April 2011, and a £13 million charge for the year ended 4 April 2012. Both amounts appear in the 2012 accounts because the legislation had not been enacted at the time the accounts for the year ended 4 April 2011 were finalised, and as a result it was not possible to charge the 2011 liability at that time. This was disclosed on page 18 of the accounts for the financial year ended 4 April 2011.

The charge for the financial year ended 4 April 2014 is currently estimated to be £16 million. It is difficult to predict the precise charge, however, as the calculation is dependent on the closing balance sheet shape and size as well as on various specific exclusions and percentage splits.

### The Board of Directors

The business is under the control of the Society's Board of Directors. Each director is elected annually by the members. The executive directors are the Chief Executive, the Group Finance Director, the Group Retail Director and

the Chief Operating Officer, Group Operations. All other directors are non-executive directors. The business address of all of the directors and officers is Nationwide House, Pipers Way, Swindon SN38 1NW, England.

Under the Society's rules, the Board of Directors must consist of not less than eight directors of whom not less than five must be present at a Board Meeting to form a quorum.

No potential conflicts of interest exist between any duties to the Society of the persons on the board of directors and their private interests or other duties.

The following table presents information with respect to current directors:

| <b>Name</b>   | <b>Age</b> | <b>Position</b>        | <b>Other Directorships</b>  |
|---------------|------------|------------------------|---|
| Geoffrey Howe | 64         | Chairman               | Gateway Electronics Components Limited<br>Close Brothers Group plc<br>Jardine Lloyd Thompson Group plc, Chairman<br>The Cavendish School Charitable Trust Limited   |
| Graham Beale  | 54         | Chief Executive        |   |
| Mark Rennison | 53         | Group Finance Director | Confederation Mortgage Services Limited<br>Exeter Trust Limited<br>First Nationwide<br>LBS Mortgages Limited<br>Nationwide Anglia Property Services Limited<br>Nationwide Investments (No.1) Limited<br>Nationwide Housing Trust Limited<br>Nationwide Lease Finance Limited<br>Nationwide Mortgage Corporation Limited<br>Nationwide Syndications Limited<br>Staffordshire Leasing Limited<br>NBS Fleet Services Limited<br>Arkose Funding Limited |
| Chris Rhodes  | 50         | Group Retail Director  | Derbyshire Home Loans Limited<br>E-Mex Home Funding Limited<br>The Mortgage Works (UK) plc<br>U C B Home Loans Corporation Limited<br>at.home nationwide Limited<br>Jubilee Mortgages Limited<br>The Nationwide Foundation<br>Visa Europe Limited<br>National Numeracy (Trustee)  |
| Rita Clifton  | 55         | Non-executive Director | The British United Provident Association Limited<br>Populus Limited<br>WWF-UK (Trustee)<br>Henley Festival Limited<br>BrandCap Limited<br>The Conservation Volunteers<br>TCV Employment and Training Services Limited<br>BTCV<br>Rita Clifton Limited   |

| <b>Name</b>    | <b>Age</b> | <b>Position</b>         | <b>Other Directorships</b>   |
|----------------|------------|-------------------------|--|
| Tony Prestedge | 43         | Chief Operating Officer | Nationwide Anglia Property Services Limited<br>Dunfermline BS Nominees Limited<br>Monument (Sutton) Limited<br>The Derbyshire (Premises) Limited<br>Opportunity Now  |
| Michael Jary   | 50         | Non-executive Director  | Duchy Originals Limited<br>OC&C Peleus Advisors LLP<br>OC&C Services LLP<br>OC&C Strategy Consultants International (Netherlands)<br>PCF Social Enterprises Limited<br>The Michael Jary Charitable Trust<br>Fairtrade Foundation |
| Roger Perkin   | 65         | Non-executive Director  | Electra Private Equity plc<br>Electra Private Equity Investments plc<br>Crime Reduction Initiatives<br>Bower Bequest Trustee Company Limited<br>Tullett Prebon plc<br>Resolution Limited<br>Sova                                 |
| Alan Dickinson | 62         | Non-executive Director  | Kennington Oval Limited<br>Frogmore Property Company Limited<br>Motability<br>Carpetright plc<br>Willis Ltd<br>Brown Shipley & Co. Limited   |
| Mitchel Lenson | 59         | Non-executive Director  | Eclipse Film Partners No.4 LLP<br>Eclipse Film Partners No.39 LLP<br>The Invicta Film Partnership No.37, LLP<br>Elysian Fuels 1 LLP<br>Elysian Fuels 2 LLP<br>MVA Consultant Services Limited                                    |
| Lynne Peacock  | 58         | Non-executive Director  | Hawkins Residents Limited<br>Scottish Water<br>Scottish Water Business Stream Holdings Limited<br>Scottish Water Horizon Holdings Limited<br>Standard Life plc<br>Standard Life Charitable Trust                                 |

## TAXATION

### UNITED KINGDOM TAXATION

The comments below, which are of a general nature, are a summary of the Issuer's understanding of current United Kingdom law and published HM Revenue and Customs practice relating to certain aspects of the United Kingdom withholding tax treatment at the date hereof in relation to payments of principal and interest in respect of the Notes. They do not deal with any other United Kingdom taxation aspects of acquiring, holding or disposing of Notes. The comments relate only to the position of persons who are the absolute beneficial owners of their Notes and Coupons and do not apply to certain classes of person (such as dealers and persons connected with the Issuer). Prospective holders of Notes should be aware that the particular terms of issue of any series of Notes as specified in the relevant Final Terms may affect the tax treatment of that and other series of Notes. The United Kingdom tax treatment of prospective Noteholders depends on their individual circumstances and may be subject to change in the future. Prospective holders of Notes who may be liable to tax in a jurisdiction other than the United Kingdom are strongly advised to consult their own professional advisers as to whether they are so liable (and if so under the laws of which jurisdictions), since the following comments relate only to certain United Kingdom taxation aspects of payments in respect of the Notes. In particular, Noteholders should be aware that they may be liable to taxation under the laws of other jurisdictions in relation to payments in respect of the Notes even if such payments may be made without withholding or deduction for or on account of taxation under the laws of the United Kingdom. The comments assume that no security will be created for the benefit of the Notes, that there will be no substitution of the Issuer, that the Issuer will not issue any Notes from or through any branch situated outside the United Kingdom and that the Issuer will remain a Building Society within the meaning of the Act. Noteholders who are in any doubt as to their tax position should consult their professional advisers.

1. (a) Ordinary Notes and Subordinated Notes which carry a right to interest will constitute "quoted Eurobonds" provided that they are and continue to be listed on a "recognised stock exchange" within the meaning of section 1005 of the Income Tax Act 2007 (the **ITA**). The London Stock Exchange is a recognised stock exchange. Securities will be treated as listed on the London Stock Exchange if they are included in the Official List (within the meaning of and in accordance with the provisions of Part 6 of the FSMA) and admitted to trading on the London Stock Exchange. Securities which are to be listed on a stock exchange other than the London Stock Exchange will satisfy this requirement if they are officially listed in the relevant country in accordance with provisions corresponding to those generally applicable in EEA states and are admitted to trading on a recognised stock exchange in that country. Whilst the Ordinary Notes and Subordinated Notes are and continue to be quoted Eurobonds, payments of interest on such Notes may be made without withholding or deduction for or on account of United Kingdom tax.
- (b) The Deposit Notes will be **qualifying certificates of deposit** within the meaning of Section 985 of the ITA provided that they relate to a deposit of money, they are and continue to be in bearer form and they satisfy the following conditions:
  - (i) they recognise an obligation to pay the holder a stated principal amount;
  - (ii) the amount payable by the Issuer thereunder, exclusive of interest, is not less than £50,000 (or, for a deposit denominated in foreign currency, not less than the equivalent of £50,000 at the time when the deposit was made); and
  - (iii) that amount is payable by the Issuer within five years beginning with the date on which the deposit was made.

The Deposit Notes will be "qualifying uncertificated eligible debt security units" if:

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

As long as they constitute "qualifying certificates of deposit" or "qualifying uncertificated eligible debt security units" within the meaning of Sections 985 or 986 respectively interest on the Deposit Notes may be paid without withholding or deduction on account of United Kingdom income tax.

- (c) In other cases interest will generally fall to be paid on Notes under deduction of United Kingdom income tax at the basic rate (currently 20 per cent.). However, where an applicable double tax treaty provides for a lower rate of withholding tax (or for no tax to be withheld) in relation to a Noteholder, HMRC can issue a notice to the Issuer to pay interest to the Noteholder without deduction of tax (or interest to be paid with tax deducted at the rate provided for in the relevant double tax treaty).

## **2. Other Rules Relating to United Kingdom Withholding Tax**

Notes may be issued at an issue price of less than 100 per cent. of their principal amount. Under HMRC published practice any discount element on any such Notes will not generally be subject to any United Kingdom withholding tax but may be subject to reporting requirements as outlined in paragraph 3 below

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

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

## **3. Provision of Information**

HMRC has powers, in certain circumstances, to obtain information about: payments derived from securities (whether income or capital); certain payments of interest (including the amount payable on the redemption of a deeply discounted security); and securities transactions.

The persons from whom HMRC can obtain information include: a person who receives (or is entitled to receive) a payment derived from securities; a person who makes such a payment (received from, or paid on behalf of another person); a person by or through whom interest is paid or credited; a person who effects or is a party to securities transactions (which includes an issue of securities) on behalf of others; registrars or administrators in respect of securities transactions; and each registered or inscribed holder of securities.

The information HMRC can obtain includes: details of the beneficial owner of securities; details of the person for whom the securities are held, or the person to whom the payment is to be made (and, if more than one, their respective interests); information and documents relating to securities transactions; and, in relation to interest paid or credited on money received or retained in the United Kingdom, the identity of the security under which interest is paid. HMRC is generally not able to obtain information (under its power relating solely to interest) about a payment of interest to (or a receipt for) a person that is not an individual, or about interest paid on a Deposit Note which is a "certificate of

deposit" within the meaning of section 1019 of the ITA. These limitations do not apply to HMRC's power to obtain information about payments derived from securities.

HMRC has indicated that it will not use its information-gathering power on interest to obtain information about amounts payable on the redemption of deeply discounted securities which are paid before 6 April 2014.

In certain circumstances the information which HMRC has obtained using these powers may be exchanged with tax authorities in other jurisdictions.

## **EU SAVINGS DIRECTIVE**

Under EC Council Directive 2003/48/EC on the taxation of savings income, EU Member States are required to provide to the tax authorities of another EU Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to an individual resident in that other EU Member State or to certain limited types of entities established in that other EU Member State. However, for a transitional period, Austria and Luxembourg are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). In April 2013, the Luxembourg Government announced its intention to abolish the withholding system with effect from 1 January 2015, in favour of automatic information exchange under the Directive.

A number of non-EU countries and territories including Switzerland have adopted similar measures (a withholding system in the case of Switzerland).

The European Commission has proposed certain amendments to the Directive, which may, if implemented, amend or broaden the scope of the requirements described above.

## **THE PROPOSED FINANCIAL TRANSACTIONS TAX**

The European Commission has published a proposal for a Directive for a common financial transactions tax (**FTT**) in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the **participating Member States**).

The proposed FTT has very broad scope and could, if introduced in its current form, apply to certain dealings in the Notes (including secondary market transactions) in certain circumstances. Primary market transactions referred to in Article 5(c) of Regulation (EC) No 1287/2006 are exempt.

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

The FTT proposal remains subject to negotiation between the participating Member States and is the subject of legal challenge. The Council of Ministers' legal advisers have issued an opinion stating that the provision in the proposed Directive, deeming a financial institution to be established in the participating Member State where its counterparty is established, breaches customary international law and provisions of the EU treaties. The FTT proposal may therefore be altered prior to any implementation, the timing of which remains unclear. Additional EU Member States may decide to participate. Prospective holders of Notes are advised to seek their own professional advice in relation to the FTT.

## FOREIGN ACCOUNT TAX COMPLIANCE ACT

Sections 1471 through 1474 of the U.S. Internal Revenue Code (**FATCA**) impose a new reporting regime and potentially a 30 per cent. withholding tax with respect to certain payments to (i) any non-U.S. financial institution (a "foreign financial institution", or **FFI** (as defined by FATCA)) that does not become a **Participating FFI** by entering into an agreement with the U.S. Internal Revenue Service (**IRS**) to provide the IRS with certain information in respect of its account holders and investors or is not otherwise exempt from or in deemed compliance with FATCA and (ii) any investor (unless otherwise exempt from FATCA) that does not provide information sufficient to determine whether the investor is a U.S. person or should otherwise be treated as holding a "United States Account" of the Issuer (a **Recalcitrant Holder**). The Issuer is classified as an FFI.

The new withholding regime will be phased in beginning 1 July 2014 for payments from sources within the United States and will apply to **foreign passthru payments** (a term not yet defined) no earlier than 1 January 2017. This withholding would potentially apply to payments in respect of (i) any Notes characterised as debt (or which are not otherwise characterized as equity and have a fixed term) for U.S. federal tax purposes that are issued on or after the **grandfathering date**, which is the later of (a) 1 July 2014 and (b) the date that is six months after the date on which final U.S. Treasury regulations defining the term foreign passthru payment are filed with the Federal Register, or which are materially modified on or after the grandfathering date and (ii) any Notes characterised as equity or which do not have a fixed term for U.S. federal tax purposes, whenever issued. If Notes are issued before the grandfathering date, and additional Notes of the same series are issued on or after that date, the additional Notes may not be treated as grandfathered, which may have negative consequences for the existing Notes, including a negative impact on market price.

The United States and a number of other jurisdictions have announced their intention to negotiate intergovernmental agreements to facilitate the implementation of FATCA (each, an **IGA**). Pursuant to FATCA and the "Model 1" and "Model 2" IGAs released by the United States, an FFI in an IGA signatory country could be treated as a **Reporting FI** not subject to withholding under FATCA on any payments it receives. Further, an FFI in a Model 1 IGA jurisdiction would not be required to withhold under FATCA or an IGA (or any law implementing an IGA) (any such withholding being **FATCA Withholding**) from payments it makes (unless it has agreed to do so under the U.S. "qualified intermediary", "withholding foreign partnership", or "withholding foreign trust" regimes). The Model 2 IGA leaves open the possibility that a Reporting FI might in the future be required to withhold as a Participating FFI on foreign passthru payments and payments that it makes to Recalcitrant Holders. Under each Model IGA, a Reporting FI would still be required to report certain information in respect of its account holders and investors to its home government or to the IRS. The United States and the United Kingdom have entered into an agreement (the **US-UK IGA**) based largely on the Model 1 IGA.

The Issuer expects to be treated as a Reporting FI pursuant to the US-UK IGA and does not anticipate being obliged to deduct any FATCA Withholding on payments it makes. There can be no assurance, however, that the Issuer will be treated as a Reporting FI, or that it would in the future not be required to deduct FATCA Withholding from payments it makes. Accordingly, the Issuer and financial institutions through which payments on the Notes are made may be required to withhold FATCA Withholding if (i) any FFI through or to which payment on such Notes is made is not a Participating FFI, a Reporting FI, or otherwise exempt from or in deemed compliance with FATCA or (ii) an investor is a Recalcitrant Holder.

If an amount in respect of FATCA Withholding were to be deducted or withheld from interest, principal or other payments made in respect of the Notes, neither the Issuer nor any paying agent nor any other person would, pursuant to the conditions of the Notes, be required to pay additional amounts as a result of the deduction or withholding. As a result, investors may receive less interest or principal than expected.

Whilst the Notes are in global form and held within the clearing systems, it is expected that FATCA will not affect the amount of any payments made under, or in respect of, the Notes by the Issuer, any paying agent and the Common



Depository or Common Safekeeper, given that each of the entities in the payment chain beginning with the Issuer and ending with the clearing systems is a major financial institution whose business is dependent on compliance with FATCA and that any alternative approach introduced under an IGA will be unlikely to affect the Notes. The documentation expressly contemplates the possibility that the Notes may go into definitive form and therefore that they may be taken out of the clearing systems. If this were to happen, then a non-FATCA compliant holder could be subject to FATCA Withholding. However, definitive notes will only be printed in remote circumstances.

**FATCA is particularly complex and its application is uncertain at this time. The above description is based in part on regulations, official guidance and model IGAs, all of which are subject to change or may be implemented in a materially different form.**

**TO ENSURE COMPLIANCE WITH IRS CIRCULAR 230, EACH TAXPAYER IS HEREBY NOTIFIED THAT: (A) ANY TAX DISCUSSION HEREIN IS NOT INTENDED OR WRITTEN TO BE USED, AND CANNOT BE USED BY THE TAXPAYER FOR THE PURPOSE OF AVOIDING U.S. FEDERAL INCOME TAX PENALTIES THAT MAY BE IMPOSED ON THE TAXPAYER; (B) ANY SUCH TAX DISCUSSION WAS WRITTEN TO SUPPORT THE PROMOTION OR MARKETING OF THE TRANSACTIONS OR MATTERS ADDRESSED HEREIN; AND (C) THE TAXPAYER SHOULD SEEK ADVICE BASED ON THE TAXPAYER'S PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISER.**

## SUBSCRIPTION AND SALE

The Dealers have in an amended and restated Programme Agreement dated 2 October 2013 (as amended and/or supplemented and/or restated from time to time, the **Programme Agreement**) agreed with the Issuer a basis upon which they or any of them may from time to time agree to purchase Notes. Any such agreement for any particular purchase by a Dealer will extend to those matters stated under "*Terms and Conditions of the Notes*" and "*Form of the Notes*" above. The Issuer may pay the Dealers commissions from time to time in connection with the sale of any Notes. In the Programme Agreement the Issuer has agreed to reimburse and indemnify the Dealers for certain of their expenses and liabilities in connection with the Programme and the issue of the Notes. The Dealers are entitled to be released and discharged from their obligations in relation to any agreement to issue and purchase Notes under the Programme Agreement in certain circumstances prior to payment to the Issuer.

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

### United States

The Notes have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, US persons except in certain transactions exempt from the registration requirements of the Securities Act.

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

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

The Notes are subject to 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. Terms used in this paragraph have the meanings given to them by the US Internal Revenue Code of 1986 and Treasury regulations promulgated thereunder. The applicable Final Terms will identify whether TEFRA C rules or TEFRA D rules apply or whether TEFRA is not applicable.

## 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, and each further Dealer appointed under the Programme will be required to represent and agree, that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the **Relevant Implementation Date**) it has not made and will not make an offer of Notes which are the subject of the offering contemplated by this Base Prospectus as completed by the final terms in relation thereto to the public in that Relevant Member State, except that it may, with effect from and including the Relevant Implementation Date, make an offer of such Notes to the public in that Relevant Member State:

- (a) at any time to any legal entity which is a qualified investor as defined in the Prospectus Directive;
- (b) at any time to fewer than 100 or, if the Relevant Member State has implemented the relevant provision of the 2010 PD Amending Directive, 150, natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by the Issuer for any such offer; or
- (c) at any time in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Notes referred to in (a) to (c) above shall require the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive, or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision:

- the expression an **offer of Notes to the public** in relation to any Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State;
- the expression **Prospectus Directive** means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the relevant Member State) and includes any relevant implementing measure in each Relevant Member State; and
- the expression **2010 PD Amending Directive** means Directive 2010/73/EU.

## United Kingdom

Each Dealer has represented and agreed and each further Dealer appointed under the Programme will be required to represent and agree that:

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

## **Japan**

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

## **General**

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

Neither the Issuer nor any of the Dealers represents that Notes may at any time lawfully be sold in compliance with any applicable registration or other requirements in any jurisdiction, or pursuant to any exemption available thereunder, or assumes any responsibility for facilitating such sale.

## **GENERAL INFORMATION**

### **Listing**

The listing of Ordinary Notes and Subordinated Notes on the Official List will be expressed as a percentage of their nominal amount (excluding accrued interest). It is expected that each Tranche of Ordinary Notes and Subordinated Notes which is to be admitted to listing on the Official List of the UK Listing Authority and to trading on the London Stock Exchange plc's Regulated Market will be admitted separately as and when issued, subject only to the issue of a global Note initially representing the Notes of such Tranche. Application has been made to the UK Listing Authority for Ordinary Notes and Subordinated Notes issued under the Programme to be admitted to the Official List and to the London Stock Exchange for such Notes to be admitted to trading on the London Stock Exchange's Regulated Market. The admission to listing of the Programme in respect of Ordinary Notes and Subordinated Notes is expected to be granted on or about 2 October 2013.

### **Clearing**

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

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

### **Conditions for determining price**

The price and amount of Notes to be issued under the Programme will be determined by the Issuer and the relevant Dealer at the time of issue in accordance with prevailing market conditions.

### **Material Change**

There has been no significant change in the financial or trading position of the Issuer or the Group since 4 April 2013 and no material adverse change in the financial or trading position or prospects of the Issuer or the Group since 4 April 2013, being the date to which the latest published accounts were made up.

### **Auditors**

The accounts of the Group for the two years ended 4 April 2013 have been audited by PricewaterhouseCoopers LLP, Chartered Accountants and Registered Auditors, without qualification and in accordance with International Financial Reporting Standards (IFRS) and auditing standards issued by the Auditing Practices Board. The auditors of the Group have no material interest in the Group.

The audit report on the Issuer in respect of the year ended 4 April 2013 states that the "report, including the opinion, has been prepared for and only for the Society's Members as a body in accordance with Section 78 of the Building Societies Act 1986 and for no other purpose" and that PricewaterhouseCoopers LLP "do not, in giving the opinion, accept or assume responsibility for any other purpose or to any other person to whom the report is shown or into whose hands it may come save where expressly agreed by" PricewaterhouseCoopers LLP's "prior consent in writing".

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

### **Authorisation**

Issues of Notes under the Programme have been authorised by a resolution of the Board of Directors of the Issuer passed on 16 March 2005 and a minute of delegation of the Group Finance Director of the Issuer dated 28 October 2008, as amended on 26 July 2013.

### **Litigation**

No member of the Group is or has been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware) in the 12 months preceding the date of this document which may have or have in such period had a significant effect on the financial position or profitability of the Group.

### **Post-issuance information**

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

### **Documents available for inspection**

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

- (a) the Memorandum and the Rules of the Issuer and the Act;
- (b) the audited consolidated annual accounts of the Issuer and its subsidiaries for each of the years ended 4 April 2012 and 4 April 2013 in each case together with the audit report prepared in connection therewith;
- (c) the most recently published audited consolidated annual accounts of the Issuer and its subsidiaries and, if later, the most recently published interim accounts of the Issuer and its subsidiaries, in each case together with any audit or review reports prepared in connection therewith;
- (d) the Trust Deed (which contains the forms of the temporary and permanent global Notes, the definitive Notes, the Talons and the Coupons) and the Agency Agreement and all amendments thereto and restatements thereof;
- (e) this Base Prospectus; and
- (f) any future offering circulars, prospectuses, information memoranda and supplements including Final Terms to this Base Prospectus and the documents incorporated herein and therein by reference.

### **Determination of Amounts Outstanding**

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

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

## **PRINCIPAL OFFICE OF THE ISSUER**

### **Nationwide Building Society**

Nationwide House  
Pipers Way  
Swindon SN38 1NW  
United Kingdom

## **DEALERS**

### **Barclays Bank PLC**

5 The North Colonnade  
Canary Wharf  
London E14 4BB  
United Kingdom

### **BNP Paribas**

10 Harewood Avenue  
London NW1 6AA  
United Kingdom

### **Citigroup Global Markets Limited**

Citigroup Centre  
Canada Square  
Canary Wharf  
London E14 5LB  
United Kingdom

### **Commerzbank Aktiengesellschaft**

Kaiserstraße 16 (Kaiserplatz)  
60311 Frankfurt am Main  
Federal Republic of Germany

### **Credit Suisse Securities (Europe) Limited**

One Cabot Square  
London E14 4QJ  
United Kingdom

### **Daiwa Capital Markets Europe Limited**

5 King William Street  
London EC4N 7AX  
United Kingdom

### **Deutsche Bank AG, London Branch**

Winchester House  
1 Great Winchester Street  
London EC2N 2DB  
United Kingdom

### **Goldman Sachs International**

Peterborough Court  
133 Fleet Street  
London EC4A 2BB  
United Kingdom

### **HSBC Bank plc**

8 Canada Square  
London E14 5HQ  
United Kingdom

### **J.P. Morgan Securities plc**

25 Bank Street  
Canary Wharf  
London E14 5JP  
United Kingdom

### **Merrill Lynch International**

2 King Edward Street  
London EC1A 1HQ  
United Kingdom

### **Morgan Stanley & Co. International plc**

25 Cabot Square  
Canary Wharf  
London E14 4QA  
United Kingdom

### **Nomura International plc**

1 Angel Lane  
London EC4R 3AB  
United Kingdom

### **RBC Europe Limited**

Riverbank House  
2 Swan Lane  
London EC4R 3BF  
United Kingdom

### **Société Générale**

29, boulevard Haussmann  
75009 Paris  
France

### **The Royal Bank of Scotland plc**

135 Bishopsgate  
London EC2M 3UR  
United Kingdom

### **UBS Limited**

1 Finsbury Avenue  
London EC2M 2PP  
United Kingdom



**TRUSTEE**

**The Law Debenture Trust Corporation p.l.c.**

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100 Wood Street  
London EC2V 7EX  
United Kingdom

**ISSUING AND PRINCIPAL PAYING AGENT AND AGENT BANK**

**Citibank, N.A., London Office**

Citigroup Centre  
Canada Square  
Canary Wharf  
London E14 5LB  
United Kingdom

**PAYING AGENT**

**BNP Paribas Securities Services, Luxembourg Branch**

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L-5826 Hesperange  
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*to the Dealers and the Trustee*

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